**FOR AGENDA**

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CONTAINS CONFIDENTIAL INFORMATION

June 10, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Panama—Selected Issues and Statistical Appendix**

This paper provides background information to the staff report on the 2002 Article IV consultation discussions with Panama (SM/02/160, 5/22/02), which is tentatively scheduled for discussion on Monday, June 24, 2002. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Panama indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Alleyne, WHD (ext. 36510) and Mr. Papaioannou, WHD (ext. 37799).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Tuesday, June 18, 2002; and to the European Investment Bank, the Food and Agriculture Organization, the Inter-American Development Bank, and the United Nations Development Programme, following its consideration by the Executive Board.

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INFORMATION

INTERNATIONAL MONETARY FUND

PANAMA

**Selected Issues and Statistical Appendix**

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R. Guimarães, O. Hendrick, T. Isoun, and M. Papaioannou, (all WHD)

Approved by the Western Hemisphere Department

June 10, 2002

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# Panama: Basic Data

## I. Social and Demographic Indicators

| | |
|---|---|
| Area (thousand sq. km) | 77,082 |
| Arable land (percent of land area) | 6.7 |
| | |
| Population (2001) | |
| Total (million) | 2.9 |
| Annual rate of growth, 1997-99 (percent a year) | 1.6 |
| Density (per sq. km.) | 38 |
| GDP per capita (US$), 2001 | 3,503 |
| | |
| Population characteristics (1999) | |
| Life expectancy at birth (years) | 74.4 |
| Crude birth rate (per thousand) | 21.4 |
| Crude death rate (per thousand) | 5.1 |
| Infant mortality (per thousand live births) | 20.8 |
| | |
| Income distribution (1999) | |
| Percent of income received: | |
| By highest 20 percent of households | 63.0 |
| By lowest 20 percent of households | 2.0 |
| | |
| Distribution of labor force, in percent (1999) | |
| Agriculture | 18.5 |
| Industry and mining | 24.8 |
| Services | 56.7 |
| | |
| Access to safe water (1999) | |
| Percent of population | |
| Total | 84.0 |
| Urban | 92.0 |
| Rural | 72.0 |
| | |
| Education (1999) | |
| Net enrollment rates | |
| Primary education | 92.0 |
| Secondary education | 62.0 |
| Tertiary education | 21.0 |
| | |
| GDP (2001) | US$10,171 million |

## II. Economic Indicators, 1996–2001

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In percent change) | | | | | |
| **National accounts and prices** | | | | | | |
| GDP at constant 1982 market prices | 2.8 | 4.5 | 4.4 | 3.2 | 2.5 | 0.3 |
| Agriculture and mining | 0.8 | 1.2 | 6.8 | 2.5 | 1.3 | 0.3 |
| Manufacturing and construction | -2.1 | 6.1 | 4.7 | -0.6 | -2.6 | -7.1 |
| Services | 4.2 | 4.8 | 4.7 | 5.3 | 3.8 | 1.6 |
| Consumer price index (end-of-period) | 2.3 | -0.5 | 1.4 | 1.5 | 0.7 | 0.0 |
| **Monetary 1/** | | | | | | |
| Net Domestic assets | 5.0 | 10.3 | 17.8 | 18.0 | 7.8 | 6.5 |
| Credit to the public sector | 2.5 | -2.0 | -1.2 | -0.7 | -0.7 | -1.8 |
| Credit to the private sector | 7.0 | 12.5 | 21.9 | 17.4 | 7.6 | 8.1 |
| *Liabilities to the domestic private sector* | 8.1 | 15.4 | 12.4 | 7.6 | 9.1 | 7.9 |
| **Real effective exchange rate 2/** | 86.9 | 87.7 | 88.2 | 89.7 | 91.0 | 89.9 |
| | (In percent of GDP) | | | | | |
| **Investment and saving** | | | | | | |
| Gross domestic investment | 30.5 | 31.1 | 32.8 | 33.1 | 28.7 | 28.0 |
| Private investment | 26.7 | 26.6 | 25.9 | 28.3 | 25.0 | 24.5 |
| Gross national savings | 26.8 | 24.3 | 19.6 | 18.8 | 19.4 | 23.1 |
| Private saving | 22.8 | 21.3 | 17.2 | 16.0 | 16.5 | 19.4 |
| **Nonfinancial public sector** | | | | | | |
| Revenue and Grants | 27.9 | 27.9 | 27.2 | 29.0 | 28.7 | 27.7 |
| Expenditure | 27.5 | 28.9 | 30.6 | 30.4 | 29.5 | 30.2 |
| Current | 23.7 | 24.5 | 24.8 | 27.5 | 28.2 | 25.9 |
| Capital | 3.8 | 4.3 | 6.2 | 4.7 | 3.6 | 3.5 |
| Primary Balance | 3.8 | 3.5 | 0.5 | 3.3 | 4.2 | 2.6 |
| Overall balance | 0.4 | -0.2 | -2.9 | -1.4 | -0.7 | -2.5 |
| **External current account** | -3.7 | -6.8 | -13.1 | -14.3 | -9.3 | -4.9 |
| **Gross public debt** | 63.0 | 61.5 | 72.1 | 68.9 | 76.2 | 73.8 |
| External | 51.3 | 50.8 | 57.8 | 55.9 | 61.6 | 60.5 |
| Domestic | 11.7 | 10.7 | 14.3 | 13.0 | 14.6 | 13.3 |

Panama: Basic Data

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of Balboas) | | | | | |
| **Balance of payments** | | | | | | |
| Trade balance | -644.1 | -685.2 | -1,361.6 | -1,416.5 | -1,189.8 | -825.9 |
| Exports, f.o.b. | 740.6 | 843.9 | 862.5 | 864.6 | 1,045.4 | 1,082.0 |
| Imports, f.o.b. | -2,248.9 | -2,462.2 | -2,751.9 | -2,858.4 | -2,750.8 | -2,402.1 |
| Colon Free Zone (net) | 864.2 | 933.1 | 527.8 | 577.3 | 515.6 | 494.2 |
| Services, income, and transfers (net) | 342.2 | 96.8 | 159.4 | 39.0 | 256.7 | 326.2 |
| *Of which*: | | | | | | |
| Interest on public debt | -243.3 | -282.3 | -306.3 | -364.5 | -360.8 | -419.7 |
| Current account | -301.9 | -588.4 | -1,202.2 | -1,377.5 | -933.1 | -499.7 |
| Capital and financial account balance | | | | | | |
| (including errors and omissions) | 601.0 | 731.0 | 952.1 | 1,390.4 | 566.3 | 990.3 |
| Errors and omissions | 133.0 | 298.7 | 56.7 | -103.7 | 275.6 | -74.7 |
| Overall balance | 299.1 | 142.6 | 142.7 | -90.8 | -91.2 | 415.9 |
| | | | | | | |
| Stock of net foreign assets of BNP | 952.1 | 1,082.3 | 2,313.6 | 1,295.6 | 1,506.1 | 1,693.0 |
| Stock of external payments arrears | 67.8 | 29.8 | 0.0 | 0.0 | 0.0 | 0.0 |

| **IMF data (as of Jan 31, 2002)** | |
|---|---|
| Membership status: | Article VIII |
| Intervention currency and rate | B 1.00 per U.S. dollar |
| Quota | SDR 206.6 |
| Fund holdings of local currency | SDR 237.65 |
| (as percent of quota) | 115.03 percent |
| Outstanding purchases and loans | SDR 42.9 |
| Stand-by arrangements | SDR 2.9 |
| Extended arrangements | SDR 40.0 |
| SDR department | |
| Net cumulative allocation | SDR 26.3 |
| Holdings | 1.1 |

Sources: Panamanian authorities; and Fund staff estimates.

1/ In percent of initial stock of liabilities to the private sector.

2/ Based on the period average.

# I. The Impact of External Shocks on a Dollarized Economy: The Case of Panama[1]

## A. Introduction

1. This chapter analyzes the impact of external shocks on Panama's economy. In particular, we use vector autoregressions to measure the impact of foreign shocks on economic activity, the real exchange rate, trade balance, and interest rate in Panama. The case of Panama is an interesting one, as it has used the U.S. dollar as its national currency since its monetary treaty with the United States in 1904. A recent strand of the literature on exchange rate regimes shows that a dollarized economy is expected to react differently to external shocks compared with non-dollarized economies, in particular, economies that have a floating exchange rate regime. This difference arises mainly from the absence in dollarized economies of a monetary policy authority ready to adjust interest rates to counteract adverse shocks, and the way external shocks get transmitted through *real* exchange rate changes. In this connection, recent studies have focused on the vulnerability of a dollarized economy to different shocks (Berg and Borenzstein (1999)).

## B. Some Aspects of the Panamanian Economy

2. The economic performance of Panama has been quite different from the rest of Latin America (Table 1). One of the main advantages of dollarization appears to be the remarkably low rate of inflation. In Panama, inflation has been averaging 3.2 percent over the last 30 years, and has even been lower than in the United States.[2] Not surprisingly, the comparison is also favorable against Latin American countries.

3. Another interesting aspect of Panama's experience with dollarization is its growth performance. As discussed in more detail below, because of the absence of a monetary authority, real activity may have to absorb a substantial portion of the shocks that hit the economy, which would make GDP growth more volatile. From Table 1, one can see that the volatility of GDP growth, measured by its standard deviation, is higher in Panama than in most of the other Latin American countries. Nevertheless, countries like Chile and Peru have comparable (or even higher) GDP volatility. However, it may be more meaningful to compare Panama to Costa Rica, which is comparable in size, population, and GDP, but has a floating exchange rate regime. In this case, the evaluation of the different regimes yields what one would expect: dollarized Panama has had significantly lower inflation (and inflation volatility) at a cost of a more volatile GDP growth, and comparable average GDP growth. Obviously, one has to be careful not to put too much emphasis on these comparisons since the sample has not been chosen randomly, and outliers could bias substantially the

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[1] Prepared by Roberto Guimarães.

[2] This consistently lower rate of inflation in Panama has caused a *real* exchange rate depreciation.

inferences made here. For instance, GDP volatility in Panama decreases considerably when we exclude the "Noriega" years (1987–1990). In any case, given that macroeconomic performance has been, to some extent, associated with the adopted exchange rate regime, it is likely that the impact of external shocks is also different, and this chapter examines whether this is true for Panama.

Table 1. Macroeconomic Performance of Selected Latin American Countries
(In percent, unless otherwise noted)

| Countries | Inflation average | Inflation volatility | GDP growth average | GDP growth volatility | Fiscal deficit PSBR average |
|---|---|---|---|---|---|
| Argentina | 46.8 | 31.5 | 2.3 | 5.1 | 3.7 |
| Brazil | 62.4 | 30.7 | 4.6 | 4.4 | 4.7 |
| Chile | 26.4 | 22.9 | 4.2 | 6.3 | 0.5 |
| Costa Rica | 14.2 | 9.1 | 4.2 | 3.5 | 3.0 |
| Mexico | 22.6 | 14.9 | 4.0 | 3.8 | 4.4 |
| **Panama** | **3.2** | **3.5** | **4.1** | **5.7** | **3.8** |
| Peru | 36.5 | 27.7 | 2.6 | 5.8 | 3.4 |

Source: IMF, International Financial Statistics.

Note: The period analyzed is 1970–2000 (annual data). There is no special treatment of missing data and outliers. PSBR is the public sector borrowing requirement in percent of GDP. Inflation and GDP growth volatility are measured by the sample standard deviation.

4. This chapter is organized as follows. In Section C, we look at the advantages and disadvantages of dollarization from a theoretical perspective. In particular, we focus on output and inflation performance, the fiscal performance, and the vulnerability of the economy to external shocks, paving the way for our empirical analysis. In Section D, we present the estimations and empirical results based on the VAR model. We also discuss the role of shock absorbers in the Panamanian economy, especially the *real* exchange rate and fiscal policy. Section E presents some concluding remarks.

## C. The Dollarization Debate

5. The proponents of dollarization typically point to low inflation outcomes as one of the main advantages of delegating monetary policy to a credible foreign central bank. The favorable inflationary experience of Panama illustrated in the previous section has often been cited as an example of a country that has low inflation because of the absence of inflationary

financing.[3] Obviously, one cannot rule out the possibility that a country that chooses to have a fixed exchange rate is more inflation averse than others, so that the exchange rate regime is just the commitment mechanism through which the inflation-averse country achieves its objective.[4] However, dollarization in Panama was a political outcome, with no clear connection to fundamental economic considerations.

6. Although dollarized economies are known to have experienced lower rates of inflation, the evidence also shows that delegating monetary policy to a more "conservative" (in the sense of Rogoff (1985)) central bank comes at a cost. The cost is the extra volatility that is introduced to real output growth. When supply shocks occur, the inflation-averse central bank will not accommodate those shocks and the effects will be in terms of output and employment. Although average growth is not affected (assuming that accommodation by the central bank can only have real effects in the short term), the volatility of output will be higher than otherwise. The evidence presented in the previous section is not inconsistent with this conjecture. Real GDP growth in Panama is more volatile than Mexico or Costa Rica, which can use the exchange rate and monetary policy to "cushion" some of the negative short term impact of shocks on employment and output.[5]

7. The volatility of the real exchange rate is given by the volatility of price level ratios. To the extent that relative prices are not very volatile, the real exchange rate under dollarization should be more stable than under a pure floating regime. However, the higher volatility of the real exchange rate under pure floating regime could dampen the effects of supply shocks on output and employment.

8. With regards to fiscal responsibility, proponents of dollarization claim that because of the inability to use inflationary financing of the budget deficit, fiscal frugality follows almost by design. However, this is, at best, a simplistic view. Delegation of monetary control *in*

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[3] The average annual inflation rate in Panama from 1966-2000 is 3.2 percent, compared with 4.9 percent in the United States. One of the reasons behind this might be the well known Balassa-Samuelson effect which states that a country's real exchange rate will depreciate if its productivity is lower than its trading partner. In fact, Panama's real exchange rate (based on CPIs) has *depreciated* by 1.8 percent per year since 1966.

[4] This is just another facet of the endogeneity problem that is pervasive in empirical economics. Here, the conjecture is that the choice of the exchange rate regime may have been *caused* by inflation aversion.

[5] Alesina and Gatti (1995) show that this result may be overturned if one considers the volatility in output caused by political uncertainty in the conduct of monetary policy (in the independent monetary policy case). At least for Chile and Costa Rica, it is easy to claim that this effect is of second order when compared to the volatility of supply shocks that generate the higher volatility under dollarization (or delegation).

*principle* has no effect on a fiscal authority's ability to achieve sustainable fiscal outcomes over time. In fact, the absence of tensions between monetary and fiscal authorities does not imply that fiscal policy will adjust to the monetary policy set by the foreign central bank. One could even argue that the loss of a very important tool of macroeconomic management might put additional strain on fiscal authorities to accommodate pressures from supply shocks and other disturbances. If this is true, then the size of fiscal deficits should also be higher under dollarization and fixed exchange rate regimes compared with a floating exchange rate regime. The evidence presented in the previous section does not appear to be inconsistent with this hypothesis. The fiscal performance of Panama does not compare favorably with other countries in Latin America, and the recent demise of currency boards and pegged exchanges rates since the mid-1990s has been associated with unsustainable fiscal policies. Tornell and Velasco (2000) show that the conventional view that fixed exchange rate regimes provide more fiscal discipline than flexible regimes is flawed. They show that if fiscal policy is endogenously determined, then the behavior of the fiscal authorities determines which regime provides more discipline.[6]

9. Finally, advocates of dollarization often argue that it increases transparency and financial integration, usually lowering domestic nominal interest rates and thus helping to stimulate investment and growth. Lower interest rates should also have a beneficial effect on public finances. With respect to interest spreads, one should note that even if dollarization eliminates currency risk, it might have no effect on default risk. In fact, dollarization could even increase default risk if not accompanied by fiscal discipline. The net effect on yield spreads depends on the relative magnitude of the two effects mentioned above.

## D. The Empirical Results

### The Data

10. All series used are monthly and taken from IMF's International Financial Statistics (IFS), with the exception of Panama's monthly index of economic activity (IMAE), which comes from *Contraloria General* (Statistics Bureau) and the J.P. Morgan's EMBI+ spread. The other variables used in the estimations are: U.S. industrial production, U.S. federal funds rate, the real effective exchange rate, Panama's interest rate, trade balance, and fiscal balance. The sample period covers 1996:03-2001:07. The subgroup of variables consisting of U.S. industrial production, U.S. federal funds rate, and EMBI+ captures the external shock. The federal funds rate and industrial production capture the level of economic activity in the U.S., whereas the EMBI+ is supposed to capture a confidence shock that affects emerging market economies. The real exchange rate, the trade balance and the fiscal balance are the

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[6] In particular, they show that if fiscal authorities are impatient, a flexible exchange rate regime provides more fiscal discipline than a fixed exchange rate regime.

shock absorbers, as well as domestic economic activity. All variables are seasonally adjusted.[7]

**The Estimated Models**

11. Given the importance of the ordering of the variables in the VAR model, we conduct the analysis using both methods discussed earlier. With respect to the ordering of the variables in the recursive VAR model, the external block variables always precede the subgroup of domestic variables. In the external block, the EMBI+ comes first in the ordering, followed by foreign economic activity and the foreign interest rate.[8] In the domestic group, the variables are placed in the following order: real exchange rate, trade balance, domestic activity, domestic interest rate, and the fiscal balance. The results based on the recursive ordering structure are robust to the exclusion of the domestic interest rate and reversing the order of the trade balance and the real exchange rate. The results reported in the next section are based on the generalized impulse response functions.[9] In order to account for possible overparametrization, we also estimated a VAR with one external variable (which gives the real or confidence shock), the real exchange rate, and domestic activity. The estimated model is given by:

$$Y_t = \mu + A_1 Y_{t-1} + \ldots + A_p Y_{t-p} + \varepsilon_t$$

which may be written as:

$$Y_t = \mu + A(L) Y_{t-1} + \varepsilon_t$$

where Y = [Sp Ip Ff Re Tb Imae Ir Fb]' is the vector of variables included in the VAR, with Sp = EMBI+ spread (in basis points), Ip = log of U.S. industrial production, Ff = U.S. federal funds rate, Re = log of the real effective real exchange rate, Tb = trade balance, Imae = log of the index of domestic economic activity, Ir = domestic interest rate, and Fb = fiscal balance. The vector $\varepsilon_t$ consists of reduced form shocks, and A(L) is a matrix of finite-order polynomials in the lag operator. In this model, shocks to the EMBI+ spread represent a financial *confidence* shock; the US federal funds rate shocks give a hybrid (given that it has a systematic component of monetary policy) of a real and confidence shocks; and U.S. industrial production shocks represent a real shock. From the perspective of a small open economy, these are all exogenous (or nearly so). The number of lags included in each model

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[7] The results reported in the next section are robust to different treatments of seasonality, in particular the inclusion of seasonal dummies and use of moving averages.

[8] The block exogeneity of the variables can be formally tested, however this issue is not pursued here.

[9] The impulse response functions based on the proposed Cholesky ordering yield qualitatively similar results and are available upon request.

is determined by the likelihood ratio test of lag exclusion.[10] In most cases, 2 to 4 lags were sufficient to accommodate the dynamics present in the data; unless otherwise indicated, the model is estimated in levels.

### Impulse Responses[11]

### Confidence Shocks: EMBI+

12. The effect of a positive shock to the EMBI+ spread appears to conform to the notion that it represents a confidence shock (Figure 1.1) as it leads to an immediate depreciation of the real exchange rate, worsening of the trade balance, and decline in domestic interest rates, although for an increase of 100 basis points the effect on the interest rate is less than 10 basis points. The level of domestic activity is initially unaffected by the EMBI+ shock since the decline in the trade balance is offset by the decrease in the domestic interest rate. However, after six months, domestic activity starts to decline as the domestic interest rate rises. The decline in economic activity persists for 18 months before it starts to phase out. The impact of the confidence shock is also felt on the fiscal balance. Following a one standard deviation increase in the EMBI+ spread, the fiscal balance declines by approximately 0.2 percent of gross domestic product over a 2 month horizon. Thereafter, the fiscal balance starts to increase, returning almost to its original level after 10 months. The implication of these results is that dollarization does not insulate the economy from external confidence shocks (measured by the EMBI+ spread). In particular, although dollarization eliminates foreign exchange risk, it does not eliminate the risk of default, as seen by the subsequent increase in domestic interest rates and worsening of the fiscal accounts following an increase in the EMBI+ spread. However, one should note that the impact on the interest rate is quite small and could be the explained as a sort of "safe haven" effect. Since Panama's interest rate does not contain currency risk, negative sentiment (a negative confidence shock) on emerging markets, which causes the EMBI+ to increase, might cause an increase in the demand for less risky assets, particularly ones that are not subject to exchange rate risk, thereby increasing

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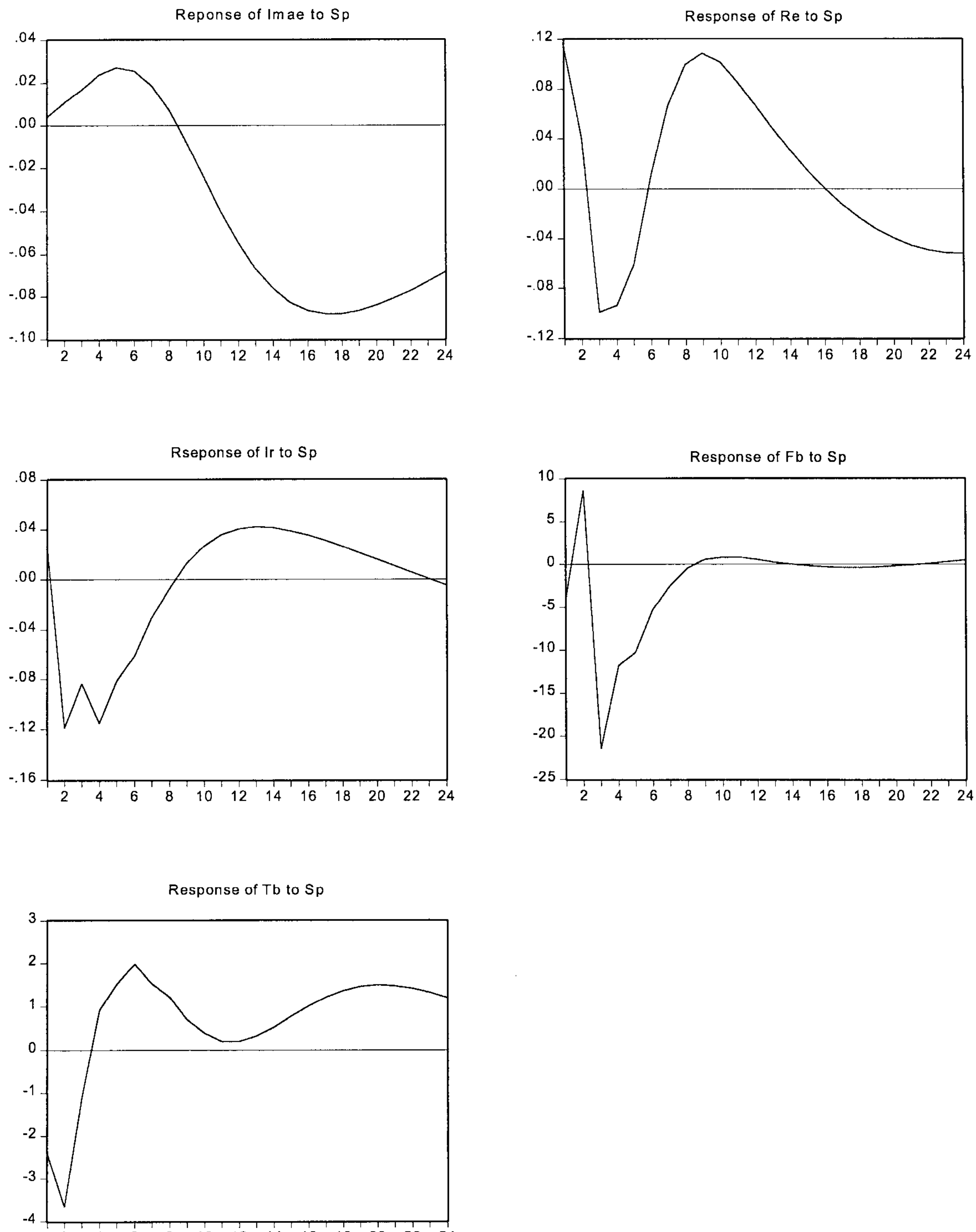
[10] The likelihood ratio test statistic is defined as $LR = (T-n)(\log|S_p|-\log|S_{p+k}|)$, where $|S|$ is the determinant of the covariance residual matrix, T is the adjusted sample size, n is the number of parameters estimated in the unrestricted system, and p is the number of lags.

[11] Only the results based on the Generalized Impulse Response functions are discussed. The qualitative impacts based on a model estimated in first differences are similar to the ones reported in the next subsections.

Figure 1.1: Generalized Impulse Response Functions
Confidence Shock: EMBI+ Spreads




Note: The effects are in percent following a 1 standard deviation shock (increase) in the relevant variable, except for the fiscal balance (in US$ millions).

dollar flows into Panama and preventing interest rates from going up significantly.

**Monetary Shocks: Federal Funds Rate**

13. Shocks to the U.S. federal funds rate have a strong effect on the domestic economy (Figure 1.2). Following a positive one standard deviation shock to the U.S. federal funds rate (57 bps), the effect on economic activity gradually declines (zero effect on impact), bottoming out after 14 months. The effect of the federal funds shock also causes the domestic interest rate to increase, and leads to a real depreciation of the exchange rate in the short term. The impact on the fiscal balance is characterized by an initial increase and a subsequent decline that becomes negligible after 8 months. The depreciation of the real exchange rate leads to a *J-curve* response of the trade balance, i.e. the initial negative impact is reversed after 4 months, however the overall impact on the trade balance is not statistically different from zero. The response of the trade balance leads one to conclude that the effects of an increase in the U.S. federal funds rate operates mainly through domestic absorption. The effect of changes in U.S. interest rates described here are consistent with theoretical analyses of dollarization. Given that the foreign interest rate has a significant impact on domestic economic activity, policy makers must be aware of how their economy reacts to developments in the anchor economy. In particular, the benefits from dollarization are likely to be higher the more integrated are the domestic and anchor economies.[12]

**Real Shocks: U.S. Industrial Production**

14. An increase in U.S. economic activity causes an exchange rate depreciation and a decline in the trade balance on impact (Figure 1.3). As in the case of a monetary shock, the initial decline in the trade balance is temporary and is reversed after six months. Domestic absorption increases since the overall effect on economic activity is positive. However, the impact on economic activity starts to decline after seven months, turning negative after one year. The effects on the domestic interest rate are negligible, and the impact on the fiscal balance is positive but lasts only for a couple of months. These results suggest that although Panama's economy responds to fluctuations in the U.S. economy, the effects are not large. In this case, policy makers might achieve greater benefits by promoting more integration with the anchor economy.

**Results from Smaller VARS**

15. To assess the robustness of the results, we also estimate smaller VARs with three variables: a foreign variable, the real exchange rate and economic activity. The motivation behind this exercise is the possibility that the larger model might suffer from overparametrization. Although, given the results of the larger model, this problem does not

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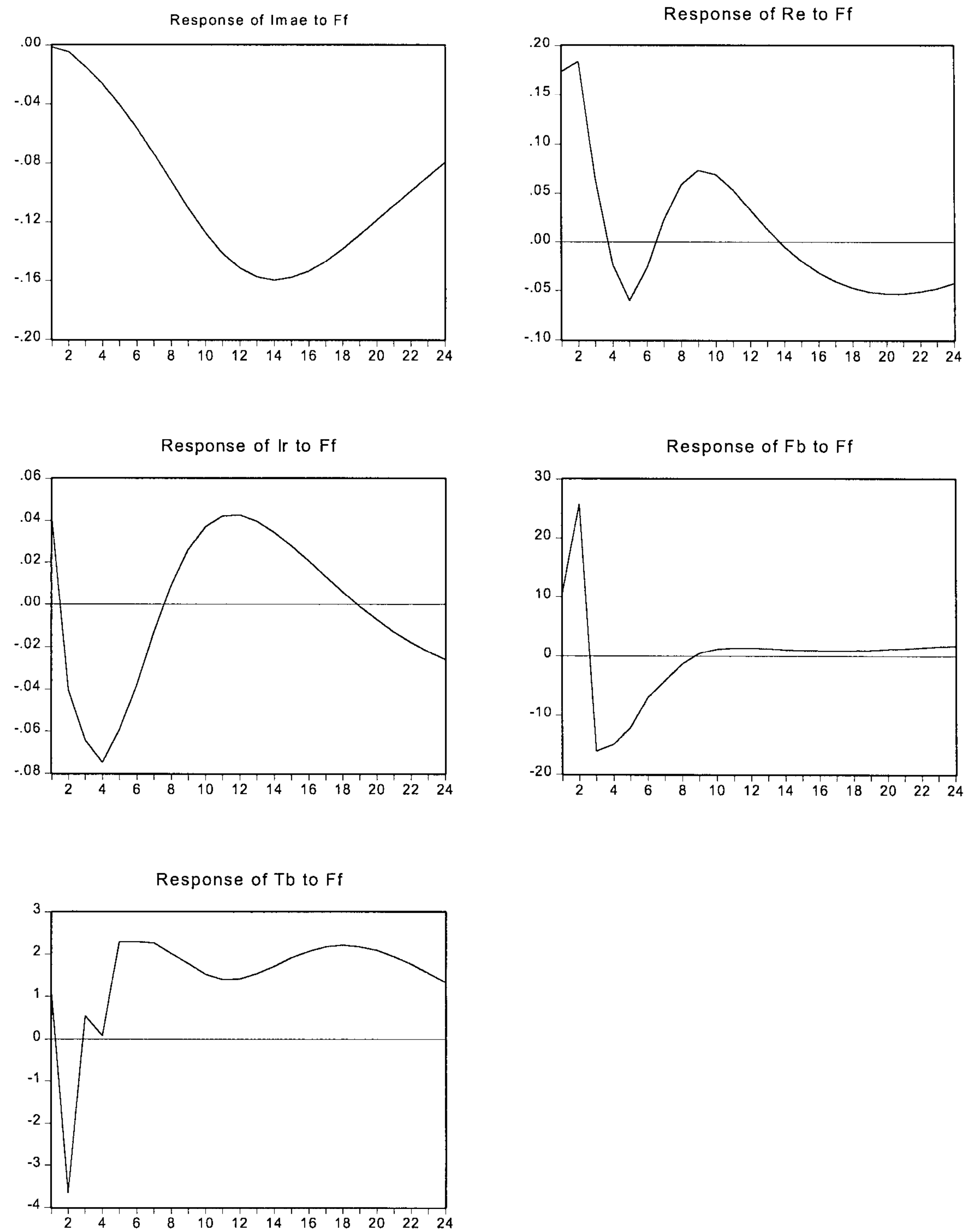
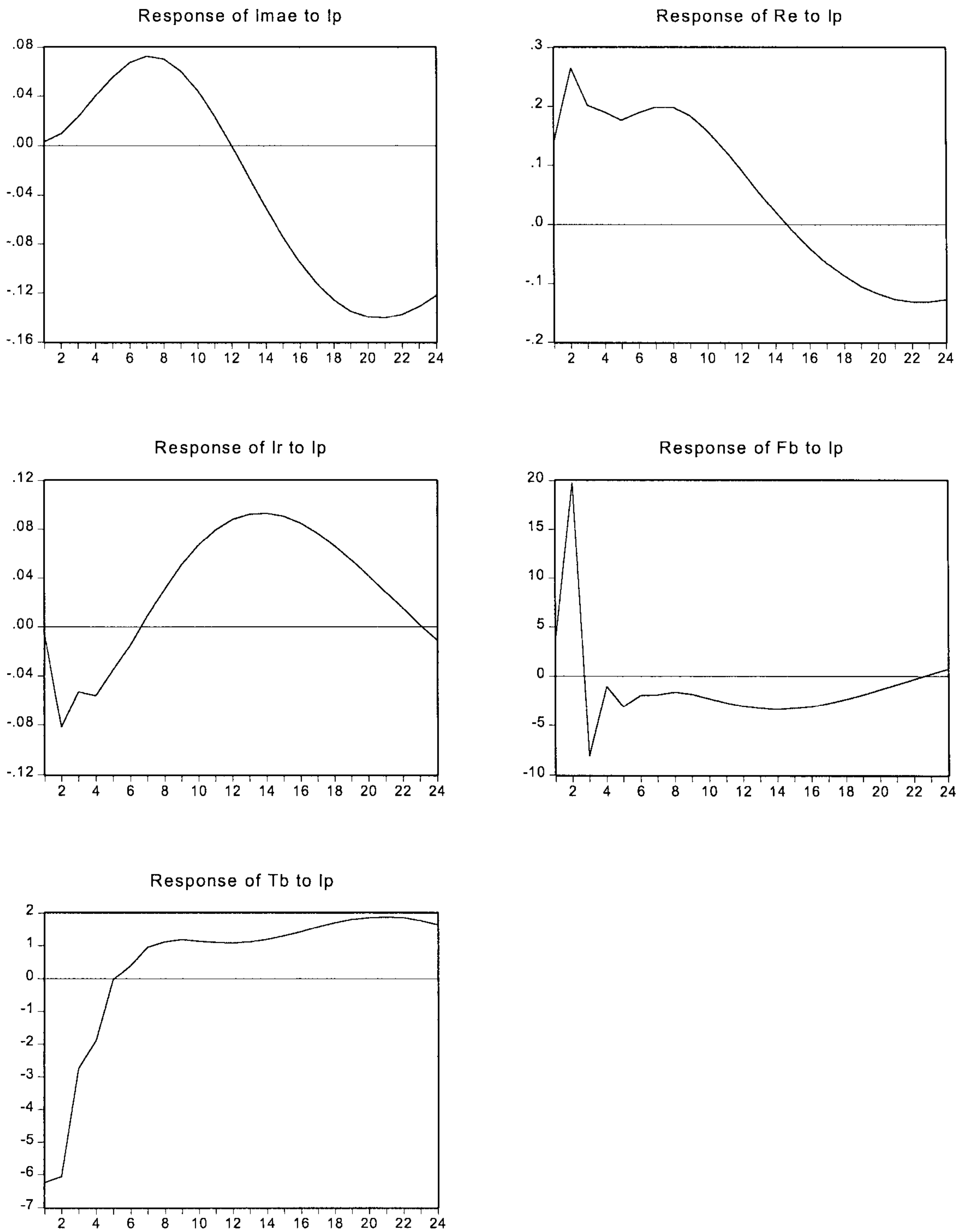
[12] It remains an open question whether the degree of correlation between two economies (measured by the correlation of their business cycles) is endogenous with respect to changes in monetary arrangements.

Figure 1.2: Generalized Impulse Response Functions
Monetary Shock: U.S. Federal Funds Rate




Note: The effects are in percent following a 1 standard deviation shock (increase) in the relevant variable, except for the fiscal balance (in US$ millions).

Figure 1.3: Generalized Impulse Response Functions
Real Shock: U.S. Industrial Production




Note: The effects are in percent following a 1 standard deviation shock (increase) in the relevant variable, except for the fiscal balance (in US$ millions).

appear to be significant, concern about overparametrization is frequently raised in the VAR literature.[13] The generalized impulse responses derived from the smaller models are not always in conformity with the results obtained with the larger model. Thus, there might be a trade-off between the degree of overparametrization of the larger model and the problems associated with potentially relevant omitted variables when one uses the smaller models.

16. The effect of an EMBI+ shock is illustrated in Figure 1.4. Economic activity (IMAE) is initially insignificantly different from zero, but after 2 months the level of economic activity gradually increases and the effect reaches 0.20 percent after 1 year. The impact on economic activity cannot be explained by changes in the real exchange rate, which appreciates during the first 4 months following the EMBI+ shock. Thus, in this case, the real exchange rate does not act as a shock absorber, in contrast with the result found with the large model. This might be attributed to the fact that the trade balance (which typically responds to real exchange rate changes, is not included in the model, and this omission could be causing these counterintuitive dynamic results.

17. The impacts of U.S. federal funds rate shocks remain statistically very significant in the context of the smaller model (Figure 1.5). However, following an increase in the U.S. federal funds rate, economic activity increases (in contrast with the result of the larger model) and the real exchange rate depreciates. The surprising effect on the level of economic activity might be partly due to the offsetting movement of the real exchange rate. Although one can argue that the real exchange rate is acting as a shock absorber in this context, it is also equally important to concede that the result could be spurious given that the relatively large positive impact on the level of economic activity might be the result of model misspecification.

18. Finally, in the case of a shock in U.S. industrial production (Figure 1.6), the effects are a similar to those obtained for the larger model, i.e. the real exchange rate depreciates and the level of economic activity increases. Both effects operate in the short and medium terms, implying, as expected, that real shocks are transmitted from the anchor economy to the dollarized economy.

## E. Concluding Remarks

19. In this chapter we analyzed the impacts of external shocks on the economy of Panama. Using vector autoregression (VAR) models, we showed that external shocks play an important role in determining the dynamic behavior of Panama's economy. In particular, an increase in the U.S. federal funds rate or a fall in U.S. output has a significant negative impact on the level of economic activity in Panama. These results conform to the general

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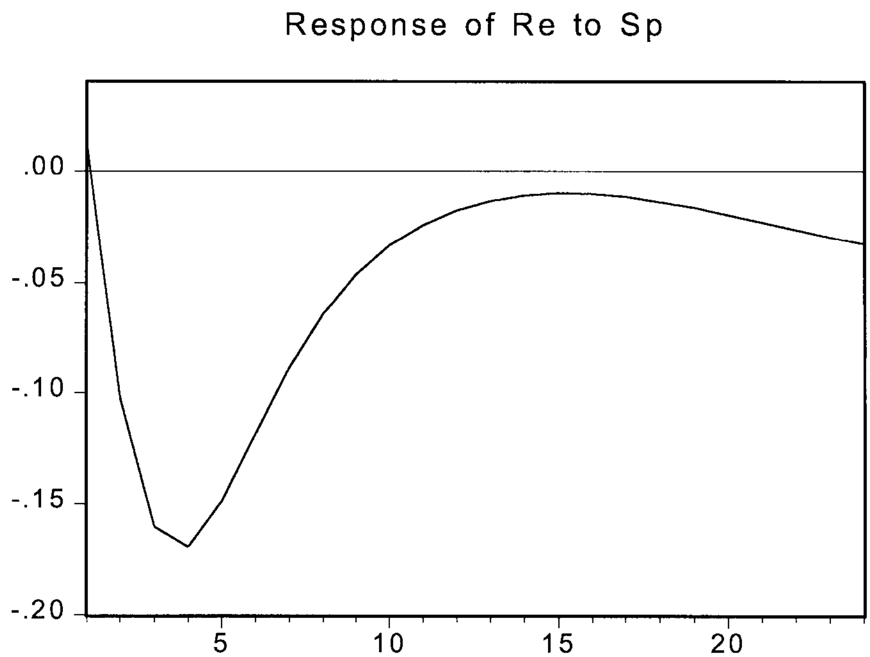
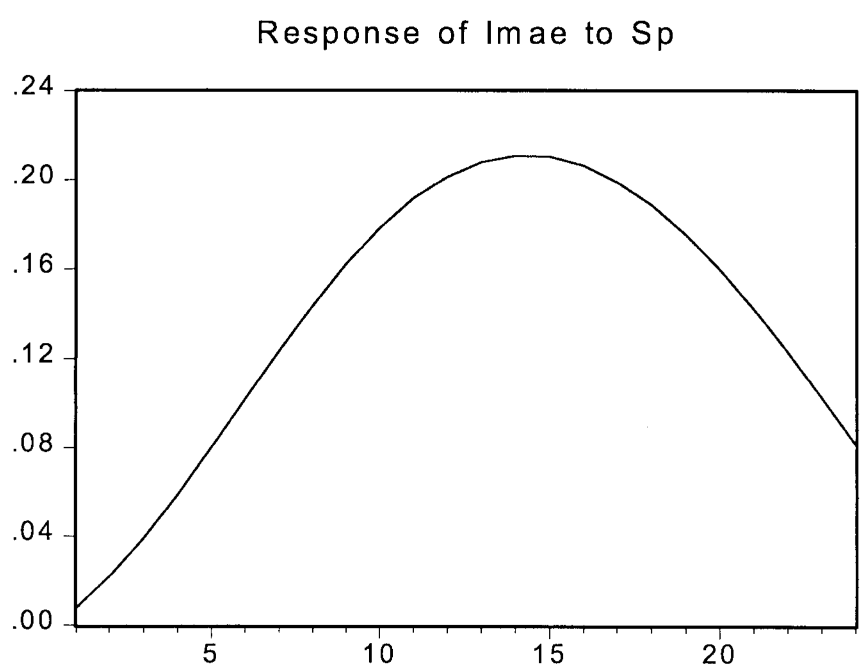
[13] However, if the goal is to find the important dynamic relationships among the variables, improperly imposing zero restrictions (in order to deal with overparametrization) may waste important information even if one wants to pare down the model. See Favero (2000).

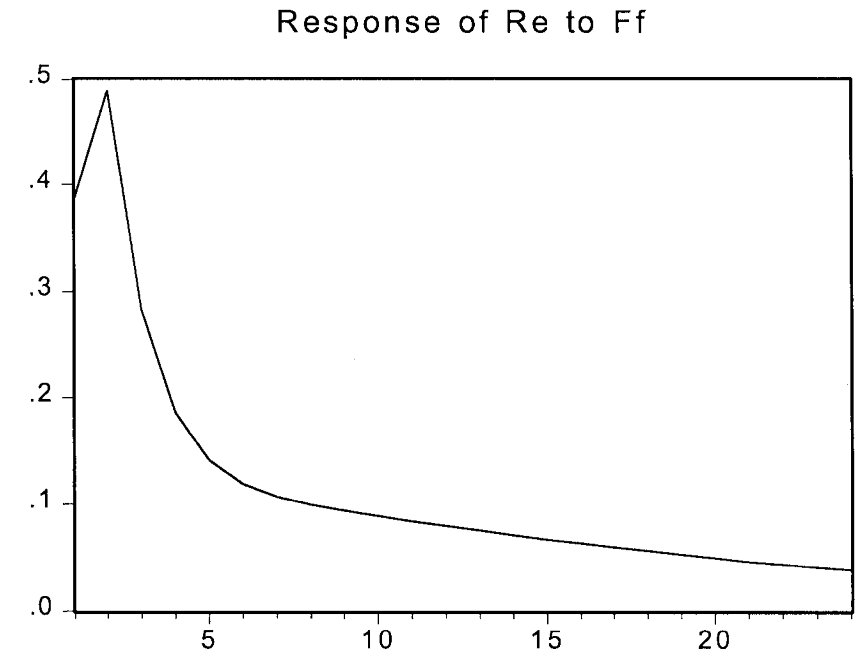
Figure 1.4: Generalized Impulse Response Functions—Smaller VAR
Confidence Shock: EMBI+ Spreads

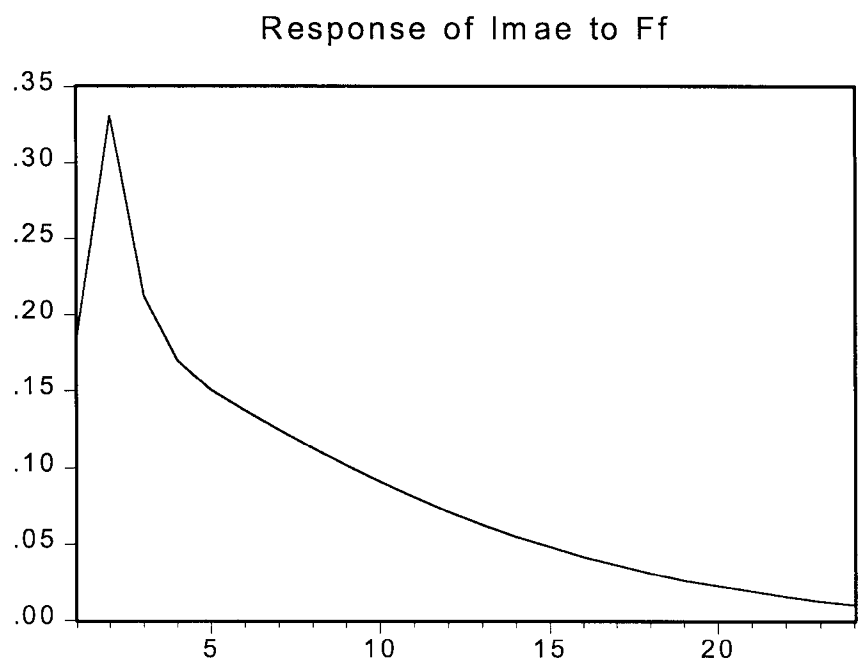



Note: The effects are in percent following a 1 standard deviation shock (increase) in the relevant variable.

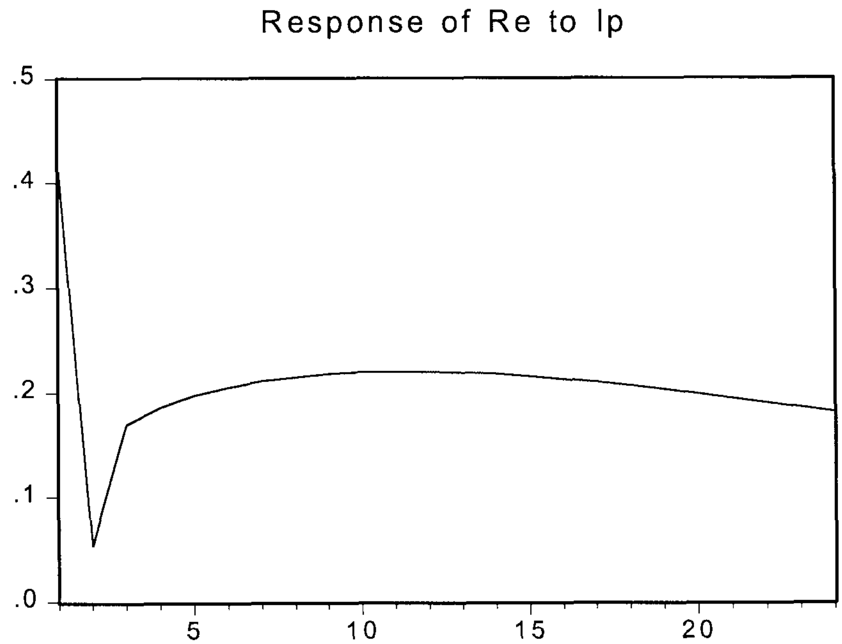
Figure 1.5: Generalized Impulse Response Functions—Smaller VAR
Monetary Shock: U.S. Federal Funds Rate

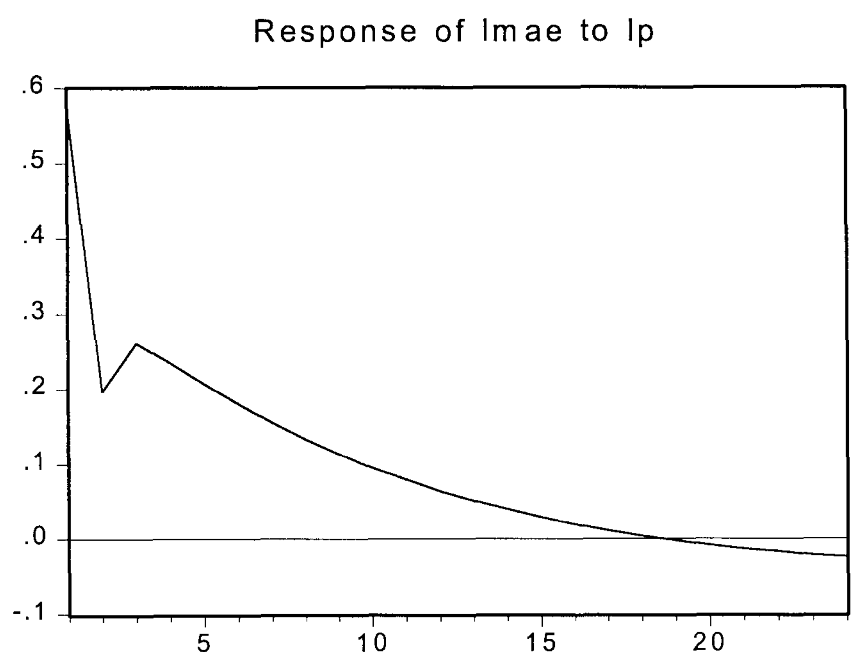



Note: The effects are in percent following a 1 standard deviation shock (increase) in the relevant variable.

Figure 1.6: Generalized Impulse Response Functions—Smaller VAR
Real Shock: U.S. Industrial Production




Note: The effects are in percent following a 1 standard deviation shock (increase) in the relevant variable.

theoretical and empirical findings about output volatility in dollarized economies. However, the real exchange rate acts as a shock absorber, dampening somewhat the impact of adverse external shocks on the level of domestic activity. This suggests a surprising level of wage and price flexibility in Panama, a factor that is often cited in the literature as an important prerequisite for the smooth function of a dollarized economy. In addition, the fiscal balance is positively affected by increases in U.S. economic activity and declines in emerging market bonds spreads.

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## The Econometric Methodology

1. This section briefly reviews the econometric methodology used in this study to measure the impact of foreign shocks on the Panamanian economy. First, we consider the selection of variables to be used in the empirical model and analyze the stochastic properties of the series, in particular the order of integration. Then, we consider the specification of the model, and discuss the issue of identification of the shocks. Finally we assess the robustness of the results by considering different identification schemes, and analyze the impulse response functions derived from the estimates under the different identification procedures.

The reduced form VAR model is given by:

$$Y_t = \mu + A_1 Y_{t-1} + \ldots + A_p Y_{t-p} + \varepsilon_t$$

where $Y_t$ is the vector of endogenous variables, and $\varepsilon_t$ is the vector of reduced form shocks. In order to avoid overparametrization of the model, we apply lag-length tests to select the appropriate number of lags.[1]

### Identification and Impulse Response Functions

Any reduced form VAR of a covariance stationary process has an infinite moving average representation given by:

$$Y_t = \alpha + \sum_{j=1}^{\infty} \phi_j \varepsilon_{t-j}$$

where now the series $\{\phi_j\}$ are the partial derivatives of $Y_{t+j}$ with respect to an unanticipated shock $\varepsilon_t$. By definition, the reduced form shocks may be contemporaneously correlated with each other because they are linear forecast errors. Obviously, these shocks cannot be interpreted as structural shocks because of this correlation.[2] For example, if $\varepsilon_t = [\varepsilon_{1,t}\, \varepsilon_{2,t}]'$ where $\varepsilon_{1,t}$ is a technology shock and $\varepsilon_{2,t}$ is a monetary shock, the response of the economy to a technology shock (measured by $\varepsilon_{1,t}$) is also "contaminated" by their correlation since part of the response is caused by movements in $\varepsilon_{2,t}$.

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[1] Lag selection criteria are usually based on some transformation of the log-likelihood of the residual variance-covariance matrix, as in the case of Bayes-Schwarz information criterion (BIC) and Akaike information criterion (AIC). Here, following Sims (1980), we apply the likelihood-ratio test of lag restrictions.

[2] In this respect, one of the advantages of the impulse response analysis is that the unanticipated nature of the shock guarantees that agents will not re-optimize and change structural parameters, invalidating the empirical analysis based on the estimated model. However, Favero (2000) notes that at the same time this ignores the systematic component of policy, which may be more important than the issue being evaluated.

To identify the structural shocks, it is instructive to consider the following VAR model:

$$B_0Y_t = k + B_1Y_{t-1} + \ldots + B_pY_{t-p} + u_t$$

where the $u_t$ is the vector of structural shocks. Pre-multiplying the system above by $B_0^{-1}$, one can easily see that:

$$\varepsilon_t = B_0^{-1}u_t$$

and

$$E(\varepsilon_t\varepsilon_t') = E(B_0^{-1}u_t u_t'(B_0^{-1})') = \Omega$$

The matrix $\Omega$ can always be rewritten as $\Omega = ADA'$ where D is diagonal. In this case, if we let $u_t = A^{-1}\varepsilon_t$, then $E(u_tu_t') = E(A^{-1}\varepsilon_t\, \varepsilon_t'(A^{-1})') = A^{-1}(ADA')(A^{-1})' = D$, i.e. we have defined a vector of orthogonal shocks $u_t$, which can now be interpreted as structural shocks.[3] In practical terms, identification amounts to finding the matrix A that orthogonalizes the reduced form errors, soaking up their contemporaneous correlation.[4] A possible identification scheme is the recursive ordering (Cholesky) proposed by Sims (1980), which assumes that A has a lower triangular structure. This is equivalent to saying that the ordering of the variables follows a hierarchical structure, with the most exogenous variable ordered first.

2. Another identification scheme is the generalized impulse response functions proposed by Koop, Pesaran and Potter (1996). They construct an orthogonal set of innovations that does not depend on the VAR ordering. The generalized impulse responses from an innovation to the j-th variable are derived by applying a variable specific Cholesky factor computed with the j-th variable at the top of the Cholesky ordering. The generalized impulses are unique and take into account the historical correlations among the different shocks. They coincide with the Cholesky-based impulse response functions only under certain circumstances and in general are only the same in the first period.[5]

3. The estimation of the VAR model is straightforward. Since each equation contains only the same set of (predetermined) variables, each equation can be estimated by OLS.[6] The

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[3] Since $e = B_0^{-1}u$ and $u = A^{-1}e$, the equality $A = B_0^{-1}$ follows immediately.

[4] Alternatively, note that the matrices $B_0$ and D cannot have more unknowns than $\Omega$. In this case, since D has n parameters (it is diagonal) and $\Omega$ has n(n+1)/2 parameters (it is symmetric), this constrains $B_0$ to have at most n(n-1)/2 free parameters.

[5] Agenor and Hoffmaister (1997) have used the generalized impulse responses to assess the impact of money and wage shocks in emerging markets.

[6] Note that seemingly unrelated regression (SUR) does not improve efficiency even if the errors are not serially uncorrelated. This is because the model has the same set of regressors in each equation.

issue of unit roots is an important one. However, both Sims (1980) and Doan (1992) recommend against differencing even if the variables contain stochastic trends. This recommendation is based on the fact that the ultimate goal of VAR analysis is not the parameter estimates, but rather the dynamic correlations between the set of variables.

# II. Assessing Debt Sustainability in Panama[1]

## A. Introduction

1. This note analyses how the government of Panama has reacted to the accumulation of debt. This remains a very important issue in the public policy debate, as Panama's high public debt-to-GDP ratio has been cited as a main area of vulnerability requiring corrective policy actions in the past. In addressing this question, it is possible to shed some light on the issue of debt sustainability. In particular, it can be shown that a fiscal policy regime is sustainable if it requires the budget surplus to respond positively to the debt to GDP ratio.[2]

## B. Model

2. The pivotal point of the analysis is the budget constraint of the government. On a period-by-period basis the budget constraint can be written as:

(1) $D_{t+1} = (D_t - S_t)(1 + r_{t+1})$

where D is government debt, S is the primary surplus, i.e. taxes minus non-interest spending, and R is the interest rate. To account for the growth of the economy it is useful to write the equation above in ratio (with respect to GDP) form:

(2) $d_{t+1} = (d_t - s_t)x_{t+1}$

where d = D/GDP, s = S/GDP, and x = 1+ real interest rate - real GDP growth. The key idea is to test for the existence of a systematic relationship between the surplus and the debt-to-GDP ratio. In this case, the following regression is estimated:

(3) $s_t = \beta_0 + \beta_1 d_t + \gamma' Z_t + \varepsilon_t$

where Z is a set of other determinants of the surplus. Following Barro's (1979) tax-smoothing model and Bohn (1998), Z includes the level of temporary (cyclical) government

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[1] Prepared by Roberto Guimaraes.

[2] Here a fiscal policy regime is sustainable when the intertemporal budget constraint of the government is satisfied under the regime. A formal mathematical proof is available upon request.

spending, $g^c$, and a business cycle indicator based on GDP,[3] denoted here by $y^c$. The key coefficient is $\beta_1$; for fiscal policy to be sustainable $\beta_1$ must be significantly greater than zero.[4]

3. There are two other approaches that can be used to test for fiscal sustainability. The first one tests directly for the presence of a unit root in the debt-to-GDP ratio. In this case a finding of a unit root implies a non-stationary debt-to-GDP ratio, which is consistent with an unsustainable fiscal policy regime. The second approach is based on the intertemporal budget constraint of the government. The idea is to estimate a time series process for government expenditure and revenue and then "solve" the intertemporal budget constraint using the estimated model. Obviously, a sustainable fiscal regime obtains when the budget constraint is binding for a given interest rate and estimated stochastic processes for government expenditures and revenues.[5]

## C. Empirical Results

4. The data used in this note are annual and come from IMF's International Financial Statistics (IFS). The series used in the estimations are: total debt, nominal GDP,[6] fiscal balance, government spending, all in US$ millions. The primary surplus series is constructed using the implied average interest rate calculated from equation (1). Figure 2.1 displays the behavior of the aforementioned variables (as a percentage of GDP) during the 1951-1998 period. The figure shows that the debt-to-GDP ratio has increased over time. The direct test of sustainability is applied to *d*. In particular, the ADF and Phillips-Perron (PP) unit root tests are used to detect a unit root in the *d*. Based on both tests, the hypothesis that *d* is non-stationary cannot be rejected at the usual significance levels.[7] The ADF statistic is –2.28 (model without trend), which is less than the 5 or 10 percent critical values. The PP statistic is–1.65, consistent with the result based on the ADF test. Since the debt-to-GDP ratio was found to be non-stationary, fiscal policy cannot be characterized as sustainable according to this approach.

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[3] In the empirical analysis below both variables are computed as a fraction of GDP.

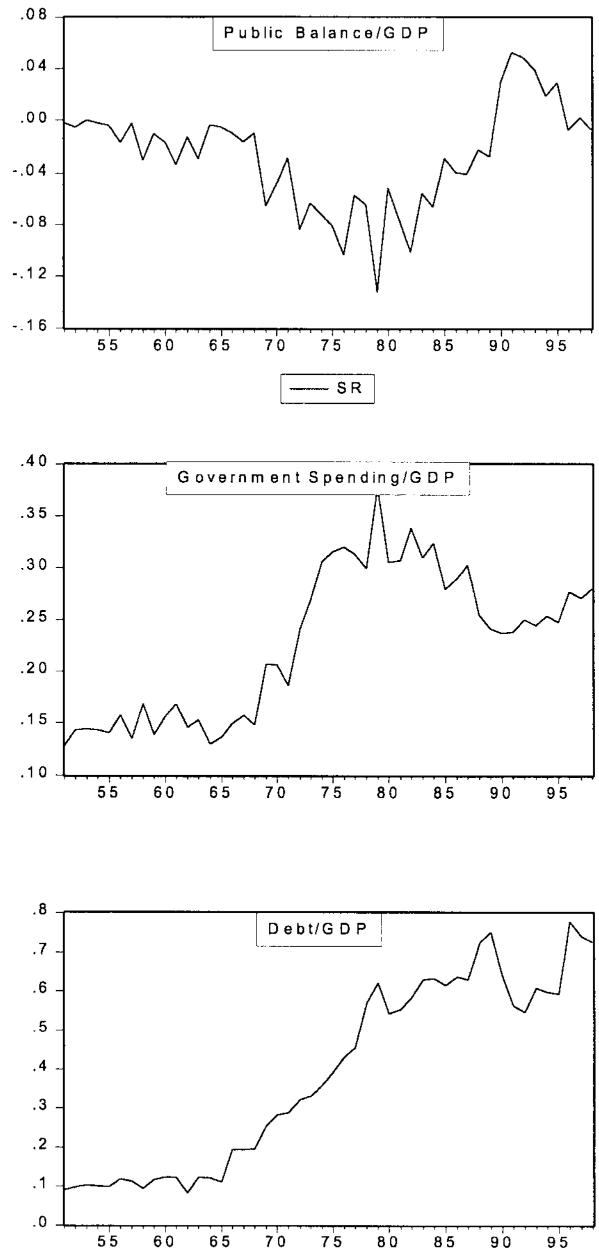
[4] This is a necessary but not a sufficient condition for fiscal sustainability. It is also needed that x and Z be stationary and $\bar{x}(1-\hat{\beta}_1) < 1$.

[5] A difficulty with this approach is that it does not account for the uncertainty inherent in the estimation of the time series for government expenditures and revenues. It is also very sensitive to changes in the assumed interest rate.

[6] Note that the same results are obtained if nominal interest and nominal GDP growth is used to calculate x; the inflation term cancels.

[7] The inclusion of a trend does not change the results (both tests) as well as the inclusion of different lag specifications in the ADF test.

Figure 2.1. Panama: Fiscal Indicators 1951-2001



5. Given the statistical problems associated with these unit root tests, the procedure based on the regression model (3) is applied to the data. The results are shown in Table 1 below. Note that for the sample period analyzed, the estimated coefficient, $\beta_1$, is negative and not significantly different from zero. This is consistent with the hypothesis that the fiscal policy regime is not sustainable since the primary public balance does not react in a way that is consistent with a mean reverting debt-to-GDP ratio.

Regression Results

(Estimates of $s_t = \beta_0 + \beta_1 d_t + \gamma' Z_t + \varepsilon_t$)

| Variable | d | yc | gc | R-square |
|---|---|---|---|---|
| | -0.006 (0.011) | -1.094 (0.026) | 0.590 (0.106)** | 0.282 |

Note: The equation is estimated by OLS. Robust (Newey-West) standard errors (in brackets)are used. An '*' (**) denotes significance at 10 percent (5 percent).

### D. Panama's New Fiscal Responsibility Law

6. The new fiscal responsibility law establishes *debt ceilings* for the public sector. Under this new law, the debt to GDP ratio would decline gradually to 50 percent (from approximately 70 percent) over a period of 15 years. In order to achieve this benchmark, the law also imposes limits on fiscal *deficits*. First, the deficit cannot exceed 2 percent of GDP. Moreover, if the annual growth of real GDP is above 1.5 percent, the debt cannot grow by more than 80 percent of the nominal GDP growth, and if the growth rate of nominal GDP is less than 1.5 percent, then the debt is not constrained to grow by a percentage of real GDP growth, but the fiscal deficit still has to be less than 2 percent of GDP.

7. This new policy can achieve fiscal sustainability according to the definition outlined here. The key point is that the debt-to-GDP ratio becomes a stationary variable under this new regime (since it converges to 50 percent). Also, in order to achieve this outcome deficits /surpluses have to react systematically to the debt level in a manner that is consistent with a positive $\beta_1$ in equation 3, i.e., because debt has to reach 50 percent of GDP within a finite period of time, higher debt must be accompanied by a higher primary surplus.

### E. Concluding Remarks

8. In this note, it is shown that in the past the fiscal policy in Panama has not been sustainable. More specifically, the primary balance did not increase when the debt-to-GDP ratio went up. However, compliance with the new fiscal responsibility law ensures that fiscal policy is sustainable according to the criteria presented in this note.

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## III. REFORM EFFORTS IN THE BANKING SYSTEM OF PANAMA 1998–2002[1]

1. Since the passage of the Banking Law of 1970, Panama has operated a banking system based on the free movement of funds across international borders, protected by strong privacy laws and sheltered from the payment of domestic and international taxes. The fact that the U.S. dollar is Panama's legal currency eliminated the possibility of exchange risk and Panama became, and remains still, a haven for institutions and individuals seeking a relatively safe tax-free environment for investment.

2. The banking system in 1998, at the time that new banking legislation was introduced, consisted of approximately 90 banks, (including two state banks), of which 24 were International License banks and 55 General License banks. The International License banks are generally foreign-owned banks or branches of foreign-owned banks whose activities are restricted to off-shore and cross-border financial transactions. The General License banks, which are owned by domestic and foreign investors, conduct business in the local and international markets.

3. Panama does not possess a central bank nor is there a designated domestic bank to carry out the supervisory function of a central bank. Furthermore, no deposit insurance scheme exists and there is no institution to act as a lender of last resort in the event of a banking crisis.[2] However, the banking system has proven resilient to external and domestic shocks. The absence of a lender of last resort is offset by the presence of many large foreign banks that are presumed to lend to their local branches during crisis periods. In these circumstances the domestic banking system developed a framework of self regulation, beginning in 1970, in the form of the National Banking Commission. This Commission supervised the banking system, and set reserve requirements and prudential limits and regulated interest rates. This system was backed by conservative lending practices including an explicit guarantor for every consumer loan, short term lending horizons (3–5 years) for personal credit, and a system of deducting repayments for consumer loans directly from the salary of every customer. The latter was facilitated by laws allowing this method of repayment to shift automatically between employers if and when a consumer changed his or her employment.

4. Despite these conservative policies and the relatively efficient functioning of the National Banking Commission, there was a growing consensus in the 1980s that the secrecy laws were hindering transparency with respect to the true state of the banking system; and the enforcement powers of the Commission were weak, in part because it was not effectively an

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[1] Prepared by Aliona Cebotari and Michael Papaioannou.

[2] The state-owned National Bank of Panama is one of the largest domestic banks and serves as the financial agent of the government and clearing house for the banking system.

independent body. Moreover, there was a concern that the regulatory environment in Panama was falling behind the new standards being set in the international community.

5. In 1998 the Panamanian authorities, with the help of the Inter-American Development Bank (IDB), took steps to strengthen and improve the regulatory and supervisory framework of the banking system. By Decree Law No. 9, of February 1998, the Superintendency of Banks was created replacing the former National Banking Commission. The new body is an independent organization with greater powers of supervision and enforcement, including the power to remove directors and liquidate banks. The Board of the Superintendency consists of five directors appointed by the government for a period of eight years. No director must be engaged in activities related to the banking sector at the time of or during his or her appointment. The choice of an eight-year cycle was designed to de-link the election of directors from the normal five-year electoral cycle, so that changes of the Board are not associated with changes in national politics. Directors are also limited to a maximum of two terms.

6. The Board is responsible for the approval of general policies, the approval of banking regulations, and is the last non-legal point of appeal with respect to disagreements between banks and the Superintendent of Banks over issues concerning bank regulations. The Board must approve the budget of the Superintendency. The Superintendent of Banks has substantial independence and authority with respect to licensing and closure of banks; bank supervision, and the drafting and issuance of orders and resolutions that affect such things as supervision, management of banks, administration of the preferential interest rates given to the agricultural sector;[3] and the administration of the anti-money laundering regime in the banking system. The Superintendent is assisted in the management of the Superintendency by a secretary–general and eight directors. All banks are now subject to on-site inspections every two years, which also cover affiliated financial groups and holding companies, and must present audited accounts (both consolidated and unconsolidated) bi-annually to the Superintendency. Within the limits of existing privacy laws, all banks must make their latest financial information available to the public.

7. Immediately after coming into operation in June 1998, the Superintendency of Banks signaled to the banking system its intention to ensure that all banks adopted the Basel standards with respect to liquidity and capital adequacy ratios, and the reporting of financial transactions. Laws were passed to that effect and the implementation date for these measures was set for January 1, 1999. Banks were required to report to the Superintendency in a uniform format in contrast to the variety of reporting formats in the past; new standards were set for capital adequacy ratios (8 percent of risk-weighted assets, which was attained by 75 percent of all banks by end 1998); and the minimum capital requirement to incorporate a

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[3] In large part these loans are given by the Agricultural Development Bank, a state-owned bank that does not take deposits from the public, and is not considered to be part of the commercial banking system.

bank was raised from US$1 million to US$10 million. Penalties for not adhering to the new regime and for misreporting were increased dramatically.

8. In early 1999, the pace of reform picked up with the issuance of new regulations with respect to limits on credit to individuals and related parties, and concentration of credit to both individuals and related parties. The new laws sought to limit loans to single borrowers to 25 percent of capital and unsecured loans to related parties to 5 percent of capital. The US-GAAP standards for bank reporting were adopted and laws establishing limits to banks' investments in debt instruments were passed. During 2000, new regulations were introduced on the minimum liquid requirements and the classification of loans and investments.

9. The rapid issuance of new norms and regulations led the Superintendency to call for an internal review of its program of reforms in 2000. The evaluation sought to verify that adherence to the Basel core principles had been incorporated in the laws that had been passed; review the extent to which there had been compliance with the new regulations; and determine the extent to which the program of reforms had remained on target. This self-assessment took place in October and using the Core Principles Methodology of the Basel Committee on Banking Supervision, the Superintendency determined that 13 of the principles had been implemented fully, 8 were largely complete and the remaining four were substantially incomplete.

10. After its own internal review and additional follow-up actions, the Superintendency of Banks requested a stand- alone assessment by the Fund, to verify compliance with the Basel Core Principles, under the Fund's Module 2 assessment. This assessment had grown out of the Fund's initiative on monitoring Offshore Financial Centers.[4] The Module 2 assessment took place in April–May 2001 and the ensuing report judged Panama to be compliant or largely compliant with 23 of the 25 Basel core principles and materially non-compliant in only two. One area of non-compliance dealt with on-site and off-site inspections, where the analytical capacity of the new division for inspections was deemed to be "under-developed"; and another related to limits on bank investment in securities, where the law was assessed to be not rigorous enough.

11. One of the interesting findings of the Module 2 assessment was that "the level of supervision dedicated to anti-money laundering is extraordinary" and "disproportionate relative to the risk posed by money laundering". This reflected the response of the Panamanian authorities to being targeted by the Financial Action Task Force as "non-

[4] The term "Offshore Financial Center" is somewhat erroneous in referring to Panama. More than 80 percent of deposits are held by "general licenses" banks, which also transact about an equal share of credit transactions, and which operate freely between both residents and non-residents. In contrast "International License banks" hold less than 20 percent of all deposits and are restricted to activity with non-residents.

cooperative" with respect to the fight against international money laundering activities. A substantial amount of legal and other resources was allocated to deal with this issue in 2000.[5]

12. The key response was to amend the existing anti-money laundering (AML) laws to criminalize the laundering of proceeds from fraud, extortion, kidnapping, corruption by public officials, terrorism, and trafficking in vehicles and weapons. Another major initiative was the strengthening of existing legislation and norms on money laundering, including the mandatory recording and reporting of cash transactions over US$10,000, the "know your customer" principles, the establishment of specific officials in each bank to handle all suspicious financial transactions, and the establishment of a Trust Unit in the Superintendency responsible for on-site inspections of trust activities. The third dimension of the response was the expansion of the role of the Financial Intelligence Unit to coordinate the process of information sharing for law enforcement purposes both domestically and internationally (Box 3.1). The fourth dimension of AML operations included the signing of Memoranda of Understanding with several foreign jurisdictions for the purpose of sharing information for law enforcement purposes. Since the September 11 terrorist attacks in the United States, the main focus of the AML effort in Panama has been combating terrorist financing (Box 3.2). Panama is a member of the Caribbean Financial Action Task Force (CFATF) and a CFATF team has already conducted an evaluation of Panama's compliance with both FATF and CFATF recommendations.

13. The strengthening of the supervisory and regulatory framework of the banking sector has proven to be very timely and critical to the maintenance of sound management and orderly change in the new operating environment of Panama's banking system. Since 1997, when commercial lending opportunities in the free zone area moderated, domestic banks began to explore the local market for consumer lending, expanding the use and the limits on credit cards, extending repayment periods for consumer loans, and aggressively marketing to the segments of the society formerly at the margin of the banks' lending activity. As consumer credit expanded rapidly, the increased competition was expected to reduce profit margins and increase the risk of a deterioration in the quality of bank assets. In addition, the banking system was also going through a period of consolidation with smaller retail banks being absorbed into larger financial conglomerates. When the boom conditions came to a rapid end during 2000 the banking sector was able to absorb the impact of the lower profits, reduced credit opportunities, and the small but growing loan default rates, without any sign of systemic distress. In January 2002, the Superintendency completed its first round of comprehensive on-site inspections of all banks in the system, with banks required to undergo such inspections at least once every two years. The current round was particularly noteworthy as the two public banks—the National Bank of Panama (BNP) and the Savings Bank (Caja de Ahorros)—were inspected for the first time since the 1998 legislation placed them under the supervision of the Superintendency.

[5] In June 2001 Panama was removed from the FATF list of "non-cooperative" countries.

**Box 3.1. The Financial Intelligence Unit**

The Financial Intelligence Unit (FIU) plays a central role in the Anti-money Laundering (AML) regime which has been operating since 1996. It is attached to the Council of Public Security and National Defense, and its role is to receive and analyze suspicious currency and financial transactions reported to it by financial instructions. It is also responsible for exchanging information with domestic and external regulators. Its activities have intensified considerably since the enactment of the AML legislation in 2000. During its first 5 years of operation, the FIU sent about 25 reports related to money laundering a year to the Attorney General's office, while in 2001 alone it sent 97 reports, which formed the basis for 24 money laundering cases. Since 1996, five money laundering cases have reached the court, of which two cases resulted in several convictions and three have been appealed. The new legislation has also enabled the FIU to sign Memoranda of Understanding (MOUs) with its counterparts abroad to facilitate the exchange of information. As of January 2002, such MOUs have already been signed with 13 countries (US, Great Britain, Germany, France, Spain, Portugal, Belgium, Brazil, Colombia, El Salvador, Venezuela, Costa Rica, and Paraguay), and five more MOUs signed by Panama await the signature of counterparts. Faster progress in signing agreements with other countries is hampered only by constraints in these countries' ability to enter into such agreements. The FIU has successfully cooperated with a number of countries, most notably the United States, in major cases involving money laundering. The FIU is a member of the Egmont group.

**Box 3.2. Combating Financing of Terrorism**

The anti-money laundering laws and regulations adopted in 2000 already provided an adequate and up-to-date framework for combating terrorism, including by criminalizing the financing of terrorism, terrorist acts and terrorist organizations, and by allowing authorities to freeze or confiscate terrorist-related assets. Panama has signed and ratified twelve international conventions for combating terrorism, including in May 2002 the 1999 U.N. Convention to Prevent and Punch Acts of Terrorism. Three other conventions are pending ratification in Parliament: two UN Conventions to Prevent and Punish Illicit Acts against Maritime and against Continental Security (adopted in Rome on March 10, 1988); and the UN Convention against Trans-national Organized Crime and its Complementary Protocols (adopted in New York on November 15, 2000 and signed by Panama on December 12, 2001).

The authorities have also submitted to Parliament draft legislation that toughens sanctions against terrorist activities, the adoption of which may require, however, changes in the Constitution. The Constitution currently does not allow jail terms longer than 20 years, whereas the draft legislation proposes terms of 50 to 100 years for terrorist activities. The Constitution could be amended either through a referendum or by the adoption of the legislation in question by two consecutive Parliaments.

The Superintendency of Banks conducted a self-assessment on compliance with the special recommendations on terrorist financing issued by FATF at end-October 2001 and submitted its results to FATF on May 1, 2002. Preliminary results indicate compliance with these recommendations.

14. The Superintendency launched an aggressive program to implement the recommendations of the Module 2 assessment. During 2001, new regulations were introduced on corporate governance, additional criteria were imposed for the granting of bank licenses, and a regulation on market risk was approved at the end of the year (Appendix I). In 2002, the Superintendency approved regulations on external auditors and limits on bank equity investments in nonbanking businesses. During 2002 the Superintendency will also attempt to introduce two internal information systems, one to rate banks and the other to establish a credit risk center, i.e., a credit bureau containing all the relevant information on all debtors in Panama's banking system.

15. One of the salient features of the reform process has been its commitment to transparency, with all the actual and some of the proposed legislative changes made available on the web site of the Superintendency and the reported financial information of each institution, supervised by the Superintendency, also made available at this web site. Although the recorded income of commercial banks remain healthy, it is the new regulatory environment that has been and will remain critical to the maintenance of a sound and transparent banking system and the image of Panama as a safe place for continued foreign investment in financial services.

## Recent Reforms of Banking System Regulations

Following the successful completion of the Basle Core Principle assessment in August 2001 (with full or near-full compliance with 23 out of 25 principles) the Superintendency of Banks has taken further steps to bring the supervisory and regulatory environment on par with best international practices. Measures include the following:

1. A new ***Corporate Governance*** regulation, that requires full compliance by banks by March 1, 2002 (Agreement 4–2001, September 5, 2001).

2. A regulation setting out ***Criteria for Granting Bank Licenses*** (Agreement 3–2001, September 5, 2001).

3. ***Internal procedures*** for analyzing requests for new ***Bank Licenses*** (Resolution 19–2002, October 2001).

4. ***Market Risk*** regulation was approved in December 2001 (Agreement 5–2001), outlining a mechanism for measuring market risk.

5. Regulation on ***External Auditors*** of banks and their interchange of information with the Superintendency (Agreement 1–2002, March 1, 2002).

6. Regulation on ***limiting equity investments in corporates not related to the banking business*** (Agreement 2–2002, March 27, 2002) The regulation clarifies Article 67 of Law 9–1998 by specifying criteria to determine what constitutes a company involved in banking activities; as well as by making it explicit that the limit of 25 percent of capital for non-financial investments applies on an aggregate, rather than individual, entity level.

7. Agreements of Understanding to facilitate ***crossborder consolidated supervision*** of Panamanian banks have been signed with supervisory bodies of Dominican Republic, Turks and Caicos Islands, Montserrat, and Bolivia (agreements with Brazil, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Nicaragua, and Peru were already in place).

8. A regulation setting out criteria for the establishment of branches and subsidiaries of Panamanian banks in other jurisdictions (Agreement 4–2002, April 2002).

9. Regulations concerning the content of the information and the frequency in which it should be submitted by banks to the Superintendency (Agreement 5–2002, May 2002 and Resolution 1–2002, May 2002).

A number of other regulations and procedures have been drafted and are expected to be adopted in June 2002:

10. ***Internal procedures for the bank rating system (CAMEL)***

11. Internal guidelines for ***working with distressed banks*** (placing advisors, intervention, and liquidation) and internal procedures for other corrective measures are expected to be adopted in August 2002.

12. An IDB-financed consultant will be hired to evaluate ***internal procedures and methodology of off-site and on-site supervision*** in order to determine the areas requiring improvements.

13. Internal guidelines for ***evaluating quality of bank management*** will be approved in February 2002.

14. ***Related party lending*** regulation will be adopted in September 2002.

15. ***Off balance sheet Risk*** regulation is expected to be approved in October 2002, requiring full compliance by banks by December 2002.

16. A draft regulation on ***Mergers, Acquisitions, and Share Transfers*** was discussed in December 2001. A draft terms of reference was prepared for the hiring of an advisor to assist finalizing the regulation and updating ***internal procedures for analyzing requests.*** The regulation, together with the internal procedures are expected to be submitted for approval in November 2002.

## Panama: Summary of the Tax System as of May 31, 2001 1/

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| **1. INCOME TAX**<br>***(Impuesto sobre la Renta)***<br><br>Individuals and corporations receiving income earned from carrying out productive activities (including the rendering of services) within the territory of the Republic of Panama.<br><br>Public sector institutions and private firms are required to withhold income tax at the source (payroll and dividend taxes). | The sources subject to taxation must originate within the national territory. The personal income tax is imposed at progressive rates while the corporate income tax is generally imposed at a flat rate.<br><br>**Tax base:** The total amount of taxable income—whether in money or in kind—earned by the taxpayer (gross income less expenses and other deductions).<br><br>**Special regimes apply to:**<br><br>**a. micro enterprises, and small-and medium-sized firms:** Their gross income must not exceed B 200,000; income up to B 100,000 is taxed in accordance with the "personal income tax rates". The amount between B 100,000 and B 200,000 is taxed on the basis of corporate rates. | **A. Types of income:**<br><br>a. Compensation received in connection with occupational accidents and insurance policies in general; pensions and other benefits received through the Social Security Agency.<br><br>b. Income earned from international maritime operations carried out by merchant ships registered in Panama.<br><br>c. Inheritances, legacies, and grants.<br><br>d. Interest paid on: Panamanian government securities, deposits in savings accounts or time deposit accounts with banks located in Panama; interest paid to international public entities and foreign govern-ments; interest paid to foreign and domestic investors, provided the capital is earmarked for construction of low-income housing. | **Personal**: Individuals pay rates ranging from 4 to 33 percent of taxable net income from B 3,000—B 200,000; a proportional rate of 30 percent is paid if taxable net income exceeds B 200,000.<br><br>**Corporate:** Legal entities pay a proportional rate of 30 percent on taxable net income (if they are listed in the *Registro Industrial*, under Law 3/86, they pay 30 percent on taxable net income up to B 500,000 and 34 percent on taxable net income in excess of B 500,000). |
| | **b. Income gains from the sale of real estate:**<br><br>**Tax base:**<br><br>a. The value of the property at the time of the transfer; or | e. Interest earned by domestic or foreign banks on loans extended to farmers during the planting cycle, provided the proceeds from the loans are used for the production of rice, corn, beans, or sorghum, and the annual interest rate does not exceed 8 percent. | |

## Panama: Summary of the Tax System as of May 31, 2001 1/

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| | b. The land registry value indexed by 5 percent for each year of ownership; or<br><br>c. The land registry value indexed by 10 percent for each year of ownership.<br><br>At the time of the real estate transfer, the taxpayer can opt to pay a 2 percent transfer tax (which serves as a tax credit) over the value of (a) or (b) whichever is higher. Alternatively, the taxpayer can opt to pay 5 percent over the value of (a) or (c), whichever is higher. This settlement is considered final.<br><br>**c. Incomes generated by artists and professionals on occasional visits:** taxed at a rate of 15 percent.<br><br>**d. Enterprises located in the Colón Free Zone, or other free trade zone established in Panama:** pay no tax on their earnings from external operations. Earnings from domestic operations are taxed at the general corporate rate of 30 percent. | f. Premiums in respect of re-insurance operations relating to risks and persons situated abroad.<br><br>g. Prizes and other benefits obtained from games of chance administered by the government.<br><br>h. Royalties *[regallas]* paid to persons abroad by persons established in the Colón Free Zone.<br><br>i. Remuneration paid to accredited diplomatic personnel in Panama and to consular personnel provided reciprocal arrangements are in effect. | |
| | **e. Transport and telecommunications enterprises:** have the option to treat as taxable net income from operations 3 percent of the gross value of the receipts from such operations, or to determine their taxable net income in accordance with the general rules of the Fiscal Code. | **B. Tax-exempt persons or entities:**<br><br>a. Firms or individuals exempted under the terms of public treaties or by contracts authorized or approved by Law.<br><br>b. The State, municipalities and autonomous or semi-autonomous state institutions. | |

**Panama: Summary of the Tax System as of May 31, 2001 1/**

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| | **f. Exhibition companies and film distributors:** pay an income tax rate of 6 percent. | c. Churches, seminaries, and religious associations, provided their incomes derive directly from the respective activities. | |
| | **g. Tax on dividends:** is levied through withholding effected by the firm that pays out the dividends. With-holding is 10 percent or 20 percent depending on whether registered or bearer instruments are involved. No dividend tax is payable if retained earnings are capitalized. | d. Shelters, hospices, and charities in general, provided that their revenues are allocated exclusively for social assistance or public welfare.<br><br>e. Individuals and corporations engaged in agriculture with an annual gross income of less than B/. 100,000.<br><br>f. Trusts established for the purpose of administering private pension funds.<br><br>g. Cooperatives. | |
| | **h. Complementary tax *(impuesto complementario):*** is an advance payment made when the distribution of earnings or dividends amounts to less than 40 percent of after tax earnings. Corporations are required to withhold 4 percent if they do not distribute dividends. No complementary tax is imposed if earnings are distributed in an amount equal to or greater than 40 percent of after tax earnings. | | |

## Panama: Summary of the Tax System as of May 31, 2001 1/

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| **2. PROPERTY TAX**<br><br>Owners of real estate within the territory of the Republic of Panama, including buildings or other permanent construction, as recorded in the Public Ownership Register. | **Tax base:** the highest of the following items:<br><br>a. Value set by the Ministry of Finance and Cadastral Directorate.<br><br>b. The price negotiated in the sale.<br><br>c. The assessed value in a succession.<br><br>d. Improvements. | a. New residential constructions, for up to 20 years.<br><br>b. In the case of horizontal property, provided none of the floors or suites in the building have been the subject of a transfer. | In case property value is:<br><br>a. B 20,000 –50,000: 1.75 percent.<br><br>b. B 50,001–75,000: 1.95 percent; and<br><br>c. From 75,001 and upwards 2.10 percent. |
| **3. COMMERCIAL AND INDUSTRIAL LICENSE TAX**<br><br>The owner or legal representative, i.e., the individual or legal entity to whom the commercial and/or industrial license or permit is issued. | To provide legalization for commercial and industrial activities in Panama for individuals and corporations.<br><br>**Tax base:** The firm's total taxable capital (assets minus liabilities). | a. Agricultural activities.<br><br>b. Manufacturing and sale of crafts and other manual domestic or cottage industries. | One percent of the capital of the firm, with a minimum of B/. 10.00 and a maximum of B/. 20,000. |
| **4. INHERITANCE AND GIFT TAX**<br><br>Heirs or recipients of the gift of a particular item of property. | **Tax base:** The net amount of any gift, whether revocable or irrevocable. | Bequests and grants in favor of the State, autonomous institutions of the State, municipalities, or associations of municipalities. | Rates are 5–10 percent. The progressive nature of the tax takes into account the amount of the gift and the recipient's kinship with the party making the gift. |
| **5. SALES TAX** ***(Impuesto a las transferencias de bienes muebles—ITBM)***<br><br>The transferor, whether merchant, producer, importer, service provider, or lessor, etc. | **Tax base:**<br><br>a. Imports–the c.i.f. value, plus all taxes, duties, fees, assessment, or charges (for customs purposes) levied on imports. | a. Sales of unprocessed agricultural, livestock (including poultry) and fish products. | The general rate is 5 percent applicable to the tax base in each case, with specials rates of 10 y 15 percent on sales of alcoholic beverages and cigarettes. |

## Panama: Summary of the Tax System as of May 31, 2001 1/

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| | b. The provision of services through which raw materials are converted into a finished or semi-finished product.<br><br>c. The invoiced value of the lease of movable assets, or failing that, the value of the contract. | b. Exports and re-exports.<br><br>c. Transfer of movable tangible assets, if effected in free trade zones established in the Republic of Panama.<br><br>e. Operations affecting movable tangible assets located in areas under customs control.<br><br>f. Transfers and imports of carbonated beverages, fuel, and lubricants in general, food items, pharmaceuticals, and medicinal products.<br><br>g. Imports and transfers of inputs used in animal husbandry and agriculture.<br><br>School supplies. | |
| **6. IMPORT DUTIES**<br><br>Any individual or corporation importing goods liable to taxation. | All goods or merchandise liable for tax that imported into Panama.<br><br>**Tax base:** The c.i.f. value of the merchandise according to the rates set in the import tariff schedule in terms of the nomenclature of the harmonized commodity description and coding system. | Enterprises that import raw materials, intermediate goods, and capital goods for their own use pay 1 percent. | a. Depending upon the tariff applied:<br>0–40 percent for industrial products<br>0–50 percent for agro industrial products<br>0–60 percent for agricultural products<br><br>b. In addition, there is an administrative fee for customs services in the amount of B 70.00 in the case of customs declarations/assessments when the c.i.f. value exceeds B 2,000. |

**Panama: Summary of the Tax System as of May 31, 2001 1/**

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| 7. **EXPORT DUTIES**<br><br>Individuals or corporations exporting products abroad. | **Tax base:**<br>Weight (scrap metal). | | Scrap: B 4.00 per metric ton. |
| 8. **SELECTIVE CONSUMPTION TAX (Excise Tax)**<br><br>Consumers | **Tax base:**<br><br>a. Carbonated beverages:<br><br>- domestically produced, the tax base is the sale price.<br><br>- imported, the tax base is the c.i.f. value, plus all taxes, duties, assess-ments, or charges (for customs purposes) applicable to imports.<br><br>b. For domestic or foreign spirits: each degree of alcoholic strength, domestic or foreign beers each liter.<br><br>c. For cigarettes each pack sold. | a. Sales for export.<br><br>b. Outward sales made directly to crews, passengers of ships, international transport aircraft, or sales made to firms operating in free trade zones or ports established in the Republic of Panama. | a. Carbonated beverages; domestically produced or imported (5 percent), syrups, or concentrate used in the production of carbonated beverages (6 percent).<br><br>b. Spirits–B 0.035 per degree of alcoholic strength per liter.<br><br>c. Wines–B 0.05 per liter.<br><br>d. Beer–B 1,325 per liter.<br><br>e. Cigarettes–32.5 percent of the consumer sales price.<br><br>f. 0.05 per liter on each alcoholic beverage not classified as wine, where the alcoholic content does not exceed 20 percent proof by volume, except beer. |

## Panama: Summary of the Tax System as of May 31, 2001 1/

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| **9. FUEL CONSUMPTION TAX (Excise Tax)**<br><br>Consumers of fuel, when used to engage in primary, secondary, or tertiary activities. | **Tax base:** Amounts per gallon of fuel consumed. | | B/. 0.60 per gallon of gasoline.<br>025 per gallon of diesel.<br>0.15 per gallon of fuel oil.<br>0.13 per gallon of kerosene<br>0.08 asfhaltum. |
| **10. TAX ON UNUSED LAND**<br>The owner of the land. | **Tax base:** More than 500 hectares of privately-owned land containing no planted portions or prepared or converted land, or land which is not used for a particular commercial or industrial activity. | a. Those portions of land containing forests that are being cultivated to an adequate extent.<br><br>b. Those portions of land containing sawmills, mine works, or operations of workable reserves or deposits of all kinds.<br><br>c. Portions of land that are barren or unusable for cultivation, such as marshes, mangrove swamps, or sandbanks. | The tax is B/. 1.50 per annum for each uncultivated hectare. |
| **11. TAX ON BANKS, FINANCIAL INSTITUTIONS, AND EXCHANGE HOUSES**<br><br>Owner or representative. | **Tax base:** The capital of banks, exchange houses, and financial institutions [financieras]. | State-owned banks are exempt from the tax. | Banking institutions carrying a general license (B 25,000); with an international license (B 15,000), exchange houses (B 600), and financial institutions *[financieras]* 2.5 percent of their paid-up capital as at December 31 of each year. Under no circumstances shall the tax referred to in this article exceed B 12,500. |

## Panama: Summary of the Tax System as of May 31, 2001 1/

| Taxpayer | Tax Base/Description | Deductions/Exemptions | Rates |
|---|---|---|---|
| **12. TAX ON INSURANCE PREMIUMS (Excise Tax)**<br><br>Any individual or corporation taking out insurance policies against risks or fire, and renewals of such policies in the Republic of Panama. | **Tax base:** The amount of gross insurance premiums paid to individuals or corporations engaged in the insurance business in respect of risks and fire and in respect of insurance policies renewed in the Republic of Panama. | Fire insurance agencies and companies are exempt. | Risk insurance premiums (2 percent and 5 percent) and fire insurance premiums 7 percent. |
| **13. TAX ON INSURANCE ENTERPRISES**<br><br>Enterprises selling insurance. | **Tax base:** The value of the total assets of insurance enterprises as at December 31 of each year. | State-owned insurance entities are exempt. | Enterprises having assets in excess of balboas 1 million (B 25,000); enterprises having assets in the range of balboas 5 million–9.99999 million (B 20,000); and enterprises having assets of less than B 5 million (B 10,000). |
| **14. TAX ON TELEPHONE CALLS AND TELEGRAMS**<br><br>Individuals or corporations using services in the form of telegrams, or telephone. | **Tax base:** International telephone calls. | Does not apply to telephone calls to public or private enterprises providing telephone services. | B 1.00 is charged per international call. |

1/ Excluding some minor municipal taxes.

## Trade Policy[1]

After joining the WTO in 1997, Panama liberalized its trading regime by reducing tariff levels to among the lowest in Latin America—14 percent for agricultural products and 8 percent for other products. However, very high tariffs remain for a few sensitive agricultural products. For example, tariffs on poultry, milk, sugar, and rice are over 100 percent, with poultry reaching 286 percent. Although these rates were raised in1999 after initially being lowered at the time of the country's WTO accession they are still in compliance with Panama's WTO commitments. Panama does not charge export tariffs.

Import Tariffs as of March 1, 2002

| | |
|---|---|
| Simple un-weighted average | 8.6 percent 1/ |
| Minimum tariff | 0.0 percent 2/ |
| Maximum tariff | 286.0 percent |
| Standard deviation | 10.1 1/ |
| Number of tariff bands and their rates | n.a. |
| Range of goods covered by each band | n.a. |
| Simple un-weighted average of tariffs on agricultural products | 14.4 percent 3/ |
| Simple un-weighted average of tariffs on industrial products | 7.6 percent 4/ |
| Non ad-valorem tariffs (e.g. specific duties, mixed duties) | None 5/ |
| Seasonal tariffs | None |
| Other duties or charges that act as import tariffs (e.g. import surcharges, Statistical taxes, community levy, customs fee) | Customs administrative tax: $70 for imports of amounts greater than $2000. 6/ |

1/ Based on a customs classification containing 8,558 goods.
2/ The zero tariff is applied to 30 percent of goods.
3/ Based on 1,322 agricultural goods.
4/ Based on 7,326 nonagricultural goods.
5/ Specific and mixed non ad-valorem tariffs were eliminated with the accession to WTO in 1997.
6/ Law 36, 1995.

[1] Based on information obtained from Panamanian authorities and the U.S. Trade Representative.

## Non Tariff Barriers

**Customs Procedures**
Panama follows the WTO guidelines on customs valuation and classification.

**Quotas or Quantitative Restrictions**
In accordance with the Montreal Protocol to eliminate ozone depleting substances, Panama places certain quantitative restrictions on gaseous refrigerants, fuming agents, propellants and cleaning agents.

**Certification and Registration**
Aside from certification requirements for certain agricultural products, procedures for registration and distribution of other products are straightforward and evenly applied. There have been complaints by U.S companies about the extensive certification requirements by Panamanian health and agriculture officials as a condition for the import of poultry, pork, and beef products. There have been no instances where a U.S. plant has not been certified but inspections have been delayed at times.

**Services**
In general, Panama maintains an open regulatory environment for services. However, for professionals in certain areas, such as insurance brokers, architects, engineers, medical doctors, and lawyers, a Panamanian license is required.

**Export Subsidies**
Companies are allowed to import raw materials or semi-processed goods duty free if the inputs are used for export production. If the inputs are used for domestic consumption or processing they are imported with a duty of 3 percent. Sensitive agricultural products such as rice, dairy, pork, and tomato products are exempt from this provision. Companies are also allowed a tax deduction of 10 percent of their profits from export operations through 2002.

Panama allows exporters of certain nontraditional goods to receive Tax Credit Certificates (CATs) equal to 15 percent of the export's national value added. The certificates are transferable and can be used to pay tax obligations to the government or can be sold in secondary markets. The CAT is scheduled to be phased out after 2002.

Industries that produce exclusively for export such as shrimp farming and tourism are exempted from paying certain types of taxes and import duties. The companies that take advantage of these programs are not eligible to receive CATs for their exports.

The tourism law of 1994 (Law 8) allows Panamanian citizens deduct 50 percent of taxable income from any amount invested in tourism development.

As part of Panama's effort to broaden its manufacturing sector, the government set up export processing zones (EPZs). Companies that operate in these zones may import inputs for export production duty free. The government also gives tax incentives to EPZ companies.

**Status of Trade Agreements**

Panama is a member of the WTO. In 1997, Panama began negotiations with Costa Rica, El Salvador, Guatemala, Nicaragua and Honduras, to develop a Central American commercial free trade treaty. Central America as a whole is Panama's second largest trading partner after the U.S. The negotiations for a common normative agreement with the five Central American countries were completed in 2001 and the agreement was signed in early 2002. The second phase of this process, i.e., negotiating bilateral agreements with each of the countries is underway, with an agreement with El Salvador completed in March 2002. The pact covers 85 percent of the items produced in the two countries, excluding sensitive products such as poultry and cheese. *Panamanian authorities hope to complete negotiations with the four other Central American nations and Mexico by the end of 2002.*

Table 1. Panama: National Accounts by Productive Activity

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel. 2001 |
|---|---|---|---|---|---|---|
| | ( In millions of balboas at 1982 prices ) | | | | | |
| **Gross Domestic Product at 1982 prices** | **6,372.2** | **6,657.4** | **6,947.2** | **7,169.9** | **7,345.7** | **7,365.2** |
| Primary Activity | 522.2 | 528.5 | 564.2 | 578.2 | 586.0 | 588.0 |
| Agriculture | 515.0 | 514.9 | 547.5 | 558.9 | 568.0 | 572.3 |
| Mining | 7.2 | 13.6 | 16.7 | 19.3 | 18.0 | 15.7 |
| Secondary Activity | 856.2 | 908.6 | 951.5 | 946.0 | 921.3 | 855.5 |
| Manufacturing | 608.1 | 646.8 | 672.1 | 622.0 | 589.2 | 555.6 |
| Construction | 248.1 | 261.8 | 279.4 | 324.0 | 332.1 | 299.9 |
| Services | 4,984.2 | 5,225.9 | 5,473.8 | 5,761.5 | 5,982.4 | 6,080.6 |
| Public utilities | 305.9 | 308.2 | 294.0 | 346.6 | 387.4 | 387.6 |
| Commerce, restaurants, and hotels | 1,267.8 | 1,381.2 | 1,411.1 | 1,369.8 | 1,393.1 | 1,367.9 |
| Colon Free Zone wholesale | 490.2 | 570.7 | 554.1 | 473.8 | 523.1 | 533.6 |
| Restaurants and hotels | 100.9 | 107.7 | 113.3 | 117.8 | 121.8 | 120.2 |
| Other | 676.7 | 702.8 | 743.7 | 778.2 | 748.2 | 714.1 |
| Transport and communications | 780.1 | 824.9 | 914.7 | 1,010.8 | 1,112.1 | 1,162.9 |
| Panama Canal Commission | 429.9 | 423.6 | 442.7 | 452.3 | 466.8 | 461.2 |
| Other transport and comm. | 350.2 | 401.3 | 472.0 | 558.5 | 645.3 | 701.7 |
| Financial intermediation | 725.4 | 729.2 | 809.4 | 913.5 | 938.2 | 945.3 |
| Housing | 879.2 | 908.8 | 937.2 | 981.6 | 1,019.0 | 1,047.9 |
| Public administration | 665.3 | 690.6 | 711.3 | 721.3 | 729.2 | 762.7 |
| Other services | 360.5 | 383.0 | 396.1 | 417.9 | 403.4 | 406.3 |
| Plus: import taxes 1/ | 256.5 | 270.4 | 294.4 | 290.6 | 291.3 | 282.9 |
| Less: imputed banking services | 246.9 | 276.0 | 336.7 | 406.4 | 435.3 | 441.8 |
| | (Percent change) | | | | | |
| **Gross Domestic Product at 1982 prices** | **2.8** | **4.5** | **4.4** | **3.2** | **2.5** | **0.3** |
| Primary Activity | 0.8 | 1.2 | 6.8 | 2.5 | 1.3 | 0.3 |
| Agriculture | 1.1 | 0.0 | 6.3 | 2.1 | 1.6 | 0.8 |
| Mining | -16.3 | 88.9 | 22.8 | 15.6 | -6.7 | -12.8 |
| Secondary Activity | -2.1 | 6.1 | 4.7 | -0.6 | -2.6 | -7.1 |
| Manufacturing | -1.3 | 6.4 | 3.9 | -7.5 | -5.3 | -5.7 |
| Construction | -4.1 | 5.5 | 6.7 | 16.0 | 2.5 | -9.7 |
| Services | 4.2 | 4.8 | 4.7 | 5.3 | 3.8 | 1.6 |
| Public utilities | 17.7 | 0.8 | -4.6 | 17.9 | 11.8 | 0.1 |
| Commerce, restaurants, and hotels | -1.0 | 8.9 | 2.2 | -2.9 | 1.7 | -1.8 |
| Colon Free Zone wholesale | -5.1 | 16.4 | -2.9 | -14.5 | 10.4 | 2.0 |
| Restaurants and hotels | 6.2 | 6.7 | 5.2 | 4.0 | 3.4 | -1.3 |
| Other | 1.2 | 3.9 | 5.8 | 4.6 | -3.9 | -4.6 |
| Transport and communications | 2.5 | 5.7 | 10.9 | 10.5 | 10.0 | 4.6 |
| Panama Canal Commission | 2.5 | -1.5 | 4.5 | 2.2 | 3.2 | -1.2 |
| Other transport and comm. | 2.4 | 14.6 | 17.6 | 18.3 | 15.5 | 8.7 |
| Financial intermediation | 13.0 | 0.5 | 11.0 | 12.9 | 2.7 | 0.8 |
| Housing | 4.5 | 3.4 | 3.1 | 4.7 | 3.8 | 2.8 |
| Public administration | 1.8 | 3.8 | 3.0 | 1.4 | 1.1 | 4.6 |
| Other services | 4.2 | 6.2 | 3.4 | 5.5 | -3.5 | 0.7 |
| Plus: import taxes 1/ | 2.7 | 5.4 | 8.9 | -1.3 | 0.2 | -2.9 |
| Less: imputed banking services | 8.1 | 11.8 | 22.0 | 20.7 | 7.1 | 1.5 |

## Table 1. Panama: National Accounts by Productive Activity

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel. 2001 |
|---|---|---|---|---|---|---|
| | (Percent distribution) | | | | | |
| **Gross Domestic Product at 1982 prices** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Primary Activity | 8.2 | 7.9 | 8.1 | 8.1 | 8.0 | 8.0 |
| Agriculture | 8.1 | 7.7 | 7.9 | 7.8 | 7.7 | 7.8 |
| Mining | 0.1 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| Secondary Activity | 13.4 | 13.6 | 13.7 | 13.2 | 12.5 | 11.6 |
| Manufacturing | 9.5 | 9.7 | 9.7 | 8.7 | 8.0 | 7.5 |
| Construction | 3.9 | 3.9 | 4.0 | 4.5 | 4.5 | 4.1 |
| Services | 78.2 | 78.5 | 78.8 | 80.4 | 81.4 | 82.6 |
| Public utilities | 4.8 | 4.6 | 4.2 | 4.8 | 5.3 | 5.3 |
| Commerce, restaurants, and hotels | 19.9 | 20.7 | 20.3 | 19.1 | 19.0 | 18.6 |
| Colon Free Zone wholesale | 7.7 | 8.6 | 8.0 | 6.6 | 7.1 | 7.2 |
| Restaurants and hotels | 1.6 | 1.6 | 1.6 | 1.6 | 1.7 | 1.6 |
| Other | 10.6 | 10.6 | 10.7 | 10.9 | 10.2 | 9.7 |
| Transport and communications | 12.2 | 12.4 | 13.2 | 14.1 | 15.1 | 15.8 |
| Panama Canal Commission | 6.7 | 6.4 | 6.4 | 6.3 | 6.4 | 6.3 |
| Other transport and comm. | 5.5 | 6.0 | 6.8 | 7.8 | 8.8 | 9.5 |
| Financial intermediation | 11.4 | 11.0 | 11.7 | 12.7 | 12.8 | 12.8 |
| Housing | 13.8 | 13.7 | 13.5 | 13.7 | 13.9 | 14.2 |
| Public administration | 10.4 | 10.4 | 10.2 | 10.1 | 9.9 | 10.4 |
| Other services | 5.7 | 5.8 | 5.7 | 5.8 | 5.5 | 5.5 |
| Plus: import taxes 1/ | 4.0 | 4.1 | 4.2 | 4.1 | 4.0 | 3.8 |
| Less: imputed banking services | 3.9 | 4.1 | 4.8 | 5.7 | 5.9 | 6.0 |

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

1/ Includes the sales tax: "*impuesto a la transferencia de bienes muebles*".

# Table 2. Panama: National Accounts by Use

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel. 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas at current prices) | | | | | |
| Total domestic demand | 8,270.6 | 8,984.9 | 10,181.4 | 10,437.7 | 10,517.0 | 10,324.3 |
| Consumption | 5,783.2 | 6,293.8 | 7,184.2 | 7,251.6 | 7,643.5 | 7,479.9 |
| Public | 1,055.4 | 1,176.2 | 1,238.6 | 1,319.5 | 1,297.0 | 1,368.9 |
| Private | 4,727.8 | 5,117.6 | 5,945.6 | 5,932.1 | 6,346.5 | 6,111.0 |
| Gross domestic investment | 2,487.4 | 2,691.1 | 2,997.2 | 3,186.1 | 2,873.5 | 2,844.4 |
| Public | 313.4 | 385.4 | 581.1 | 457.2 | 364.8 | 352.8 |
| Private 1/ | 2,174.0 | 2,305.7 | 2,416.1 | 2,728.9 | 2,508.7 | 2,491.6 |
| Balance of trade (goods and nonfactor services) | -119.5 | -327.4 | -836.7 | -801.1 | -498.0 | -153.5 |
| excluding the Colon Free Zone | -459.1 | -902.7 | -839.6 | -763.0 | -321.8 | 25.5 |
| Exports of goods and nonfactor services | 7,381.5 | 8,318.1 | 8,047.1 | 7,019.0 | 7,666.4 | 7,700.6 |
| excluding the Colon Free Zone | 1,265.2 | 1,201.7 | 1,387.4 | 1,480.0 | 1,737.2 | 1,754.8 |
| Imports of goods and nonfactor services | 7,501.0 | 8,645.5 | 8,883.8 | 7,820.1 | 8,164.4 | 7,854.1 |
| excluding the Colon Free Zone | 1,724.3 | 2,104.4 | 2,227.0 | 2,243.0 | 2,059.0 | 1,729.3 |
| Gross domestic product at current market prices | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |
| | (In percent of GDP) | | | | | |
| Total domestic demand | 101.4 | 103.8 | 109.0 | 108.3 | 104.8 | 101.6 |
| Consumption | 70.9 | 72.7 | 76.9 | 75.3 | 76.2 | 73.6 |
| Public | 12.9 | 13.6 | 13.3 | 13.7 | 12.9 | 13.5 |
| Private | 58.0 | 59.1 | 63.6 | 61.6 | 63.3 | 60.1 |
| Gross domestic investment | 30.5 | 31.1 | 32.1 | 33.0 | 28.6 | 28.0 |
| Public | 3.8 | 4.5 | 6.2 | 4.7 | 3.6 | 3.5 |
| Private 1/ | 26.7 | 26.6 | 25.9 | 28.3 | 25.0 | 24.5 |
| | (In percent of GDP) | | | | | |
| Balance of trade (goods and nonfactor services) | -1.5 | -3.8 | -9.0 | -8.3 | -5.0 | -1.5 |
| excluding the Colon Free Zone | -5.6 | -10.4 | -9.0 | -7.9 | -3.2 | 0.3 |
| Exports of goods and nonfactor services | 90.6 | 96.1 | 86.1 | 72.8 | 76.5 | 75.7 |
| excluding the Colon Free Zone | 15.5 | 13.9 | 14.8 | 15.4 | 17.3 | 17.3 |
| Imports of goods and nonfactor services | 92.0 | 99.9 | 95.1 | 81.1 | 81.5 | 77.2 |
| excluding the Colon Free Zone | 21.2 | 24.3 | 23.8 | 23.3 | 20.6 | 17.0 |
| Gross domestic product at current market prices | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| | (Percentage change) | | | | | |
| Total domestic demand | 2.6 | 8.6 | 13.3 | 2.5 | 0.8 | -1.8 |
| Consumption | 2.0 | 8.8 | 14.1 | 0.9 | 5.4 | -2.1 |
| Public | 2.5 | 11.4 | 5.3 | 6.5 | -1.7 | 5.5 |
| Private | 1.9 | 8.2 | 16.2 | -0.2 | 7.0 | -3.7 |
| Gross domestic investment | 3.9 | 8.2 | 11.4 | 6.3 | -9.8 | -1.0 |
| Public | 15.2 | 23.0 | 50.8 | -21.3 | -20.2 | -3.3 |
| Private 1/ | 2.4 | 6.1 | 4.8 | 12.9 | -8.1 | -0.7 |
| Exports of goods and nonfactor services | -3.0 | 12.7 | -3.3 | -12.8 | 9.2 | 0.4 |
| Excluding the Colon Free Zone | 7.6 | -5.0 | 15.5 | 6.7 | 17.4 | 1.0 |
| Imports of goods and nonfactor services | -3.4 | 15.3 | 2.8 | -12.0 | 4.4 | -3.8 |
| Excluding the Colon Free Zone | 10.1 | 22.0 | 5.8 | 0.7 | -8.2 | -16.0 |
| Gross domestic product at current market prices | 3.1 | 6.2 | 7.9 | 3.1 | 4.0 | 1.5 |

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

1/ Includes changes in inventories.

Table 3. Panama: Saving and Investment

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel. 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Gross domestic investment** | **2,487.4** | **2,691.1** | **2,997.2** | **3,186.1** | **2,873.5** | **2,844.4** |
| Fixed capital formation | 2,059.2 | 2,295.0 | 2,624.9 | 2,908.1 | 2,634.1 | 2,644.4 |
| Public sector | 313.4 | 385.4 | 581.1 | 457.2 | 364.8 | 352.8 |
| Private sector | 1,745.8 | 1,909.6 | 2,043.8 | 2,450.9 | 2,269.3 | 2,291.6 |
| Changes in inventories | 428.2 | 396.1 | 372.3 | 278.0 | 239.4 | 200.0 |
| **Gross national saving** | 2,185.5 | 2,102.7 | 1,795.0 | 1,808.6 | 1,940.4 | 2,344.7 |
| Public sector saving | 323.9 | 259.9 | 224.0 | 273.7 | 288.0 | 369.4 |
| Private sector saving | 1,861.6 | 1,842.8 | 1,571.0 | 1,534.9 | 1,652.4 | 1,975.3 |
| **Foreign saving** | 301.9 | 588.4 | 1,202.2 | 1,377.5 | 933.1 | 499.7 |
| | (In percent of GDP) | | | | | |
| **Gross domestic investment** | **30.5** | **31.1** | **32.8** | **33.1** | **28.7** | **28.0** |
| Fixed capital formation | 25.3 | 26.5 | 28.7 | 30.2 | 26.3 | 26.0 |
| Public sector | 3.8 | 4.5 | 6.4 | 4.7 | 3.6 | 3.5 |
| Private sector | 21.4 | 22.1 | 22.4 | 25.4 | 22.6 | 22.5 |
| Changes in inventories | 5.3 | 4.6 | 4.1 | 2.9 | 2.4 | 2.0 |
| **Gross national saving** | 26.8 | 24.3 | 19.6 | 18.8 | 19.4 | 23.1 |
| Public sector saving | 4.0 | 3.0 | 2.4 | 2.8 | 2.9 | 3.6 |
| Private sector saving | 22.8 | 21.3 | 17.2 | 15.9 | 16.5 | 19.4 |
| **Foreign saving** | 3.7 | 6.8 | 13.1 | 14.3 | 9.3 | 4.9 |

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

Table 4. Panama: Agricultural Production

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel. 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas at 1982 prices) | | | | | |
| Total | 515.0 | 514.9 | 547.5 | 558.9 | 568.0 | 572.3 |
| **Crops** | **261.6** | **242.3** | **241.3** | **273.2** | **262.9** | **248.8** |
| Rice | 36.0 | 25.0 | 37.9 | 40.4 | 40.8 | 41.6 |
| Corn | 18.2 | 13.7 | 16.6 | 13.3 | 14.8 | 14.1 |
| Bananas | 117.6 | 112.4 | 86.0 | 114.5 | 93.7 | 78.1 |
| Sugarcane | 19.6 | 21.7 | 23.9 | 24.2 | 22.6 | 22.5 |
| Coffee | 15.5 | 14.6 | 15.9 | 16.2 | 18.5 | 18.0 |
| Other | 54.7 | 54.9 | 61.0 | 64.6 | 72.5 | 74.5 |
| Livestock | 167.5 | 174.2 | 187.9 | 193.2 | 198.2 | 197.0 |
| Forestry | 12.0 | 12.7 | 12.7 | 12.8 | 13.9 | 13.6 |
| Fish | 73.9 | 85.7 | 105.6 | 80.2 | 93.0 | 112.9 |
| | (Annual percent change) | | | | | |
| Total | 1.1 | 0.0 | 6.3 | 2.1 | 1.6 | 0.8 |
| Crops | -0.5 | -7.4 | -0.4 | 13.2 | -3.8 | -5.4 |
| Livestock | 5.1 | 4.0 | 7.9 | 2.8 | 2.6 | -0.6 |
| Forestry | -6.3 | 5.8 | 0.0 | 0.8 | 8.6 | -2.2 |
| Fish | -0.4 | 16.0 | 23.2 | -24.1 | 16.0 | 21.4 |

Source: Office of the Comptroller General.

Table 5. Panama: Value-Added in Manufacturing

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| | (In millions of balboas at 1982 prices) | | | | |
| **Total** | **608.1** | **646.8** | **672.1** | **622.0** | **589.2** |
| Food | 246.4 | 265.5 | 292.8 | 263.2 | 259.7 |
| Beverages | 53.3 | 58.4 | 63.2 | 62.8 | 59.3 |
| Tobacco | 29.2 | 28.6 | 8.2 | 0.0 | 0.0 |
| Petroleum products | 17.3 | 17.5 | 19.3 | 20.8 | 18.8 |
| Textiles and garments | 30.3 | 27.8 | 25.8 | 20.4 | 18.3 |
| Leather products and footwear | 10.9 | 9.8 | 8.9 | 8.1 | 6.5 |
| Wood and furniture | 28.4 | 31.1 | 35.8 | 28.0 | 26.2 |
| Paper products | 27.8 | 25.9 | 22.8 | 21.3 | 18.7 |
| Printing and publishing | 12.0 | 11.9 | 16.8 | 17.1 | 16.4 |
| Chemicals, rubber and plastic products | 55.2 | 57.3 | 57.4 | 52.1 | 49.6 |
| Glass and other mineral products | 41.3 | 46.3 | 52.9 | 62.0 | 55.4 |
| Basic metal industries | 13.7 | 18.0 | 20.5 | 19.0 | 15.2 |
| Metal products, machinery, and equipment | 22.2 | 26.0 | 28.0 | 29.1 | 26.0 |
| Other | 20.1 | 22.7 | 19.7 | 18.1 | 17.7 |
| | (Percent change) | | | | |
| **Total** | **-1.3** | **6.4** | **3.9** | **-7.5** | **-5.3** |
| Petroleum products | 64.8 | 1.2 | 10.3 | 7.8 | -9.6 |
| Total (excluding petroleum products) | -2.4 | 6.5 | 3.7 | -7.9 | -5.1 |
| Food, beverages, and tobacco | 1.1 | 7.2 | 3.3 | -10.5 | -2.1 |
| Other products | -6.4 | 5.7 | 4.3 | -4.6 | -8.6 |

Source: Office of the Comptroller General.

Table 6. Panama: Electricity Generation and Consumption

(In thousands of gigawatt hours) 1/

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Net generation** | **3.82** | **4.05** | **4.18** | **4.42** | **4.67** | **4.86** |
| Hydro | 3.00 | 2.90 | 2.14 | 3.12 | 3.40 | 2.55 |
| Thermal | 0.82 | 1.15 | 2.04 | 1.30 | 1.27 | 2.31 |
| **Total consumption** | **2.98** | **3.30** | **3.41** | **3.54** | **3.80** | **3.93** |
| Residential | 0.86 | 0.94 | 1.00 | 1.04 | 1.12 | 1.16 |
| Commercial | 1.04 | 1.18 | 1.34 | 1.45 | 1.57 | 1.62 |
| Industrial | 0.47 | 0.47 | 0.49 | 0.52 | 0.50 | 0.48 |
| Government | 0.55 | 0.57 | 0.54 | 0.51 | 0.59 | 0.67 |
| Petroterminal | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.06 | 0.14 | 0.04 | 0.09 | 0.07 | 0.00 |

Sources: Hydraulic Resources and Electricity Institute (IRHE).

1/ A gigawatt hour is equal to one billion watts being generated or consumed for one hour.

Table 7. Panama: Private Sector Construction Permits

(In thousands of Balboas)

| | Total | Panamá | San Miguelito | Colón | Others |
|---|---|---|---|---|---|
| 1996 | 358,465 | 260,696 | 50,709 | 17,545 | 29,515 |
| 1997 | 343,450 | 233,032 | 55,314 | 9,779 | 45,325 |
| 1998 | 334,302 | 215,458 | 41,507 | 32,127 | 45,210 |
| 1999 | 461,541 | 302,258 | 82,445 | 28,561 | 48,277 |
| 2000 | 509,254 | 363,668 | 72,277 | 29,004 | 44,305 |
| 2001 | 424,335 | 319,649 | 44,157 | 23,903 | 36,626 |

Source: Office of the Comptroller General.

Table 8. Panama: Premium and Regular Gasoline Sales

(In thousands of barrels)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| January | 221.3 | 228.8 | 256.7 | 271.2 | 273.2 | 275.4 |
| February | 213.6 | 210.8 | 240.5 | 259.0 | 264.9 | 251.5 |
| March | 226.0 | 230.5 | 266.3 | 311.3 | 287.7 | 280.5 |
| April | 233.3 | 231.7 | 266.2 | 291.6 | 277.8 | 275.2 |
| May | 226.1 | 240.0 | 263.0 | 280.3 | 279.5 | 263.7 |
| June | 215.0 | 229.3 | 262.0 | 283.3 | 279.1 | 271.9 |
| July | 225.1 | 258.3 | 275.8 | 289.6 | 265.4 | 275.6 |
| August | 229.9 | 248.4 | 277.8 | 293.1 | 282.1 | 282.3 |
| September | 215.3 | 238.8 | 274.2 | 269.6 | 271.0 | 255.9 |
| October | 231.4 | 257.4 | 283.6 | 276.0 | 273.7 | 265.8 |
| November | 215.5 | 236.2 | 258.0 | 269.2 | 262.7 | 281.1 |
| December | 234.4 | 274.5 | 305.0 | 304.7 | 294.9 | 306.1 |
| **Total** | **2,686.9** | **2,884.7** | **3,229.1** | **3,398.9** | **3,312.0** | **3,285.0** |

Sources: Ministry of Commerce and Industry; and Fund staff estimates.

## Table 9. Panama: Diesel Sales

(In thousans of barrels)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| January | 239.1 | 275.6 | 292.5 | 325.0 | 313.7 | 330.4 |
| February | 247.4 | 249.1 | 267.4 | 307.4 | 317.7 | 295.6 |
| March | 289.2 | 294.6 | 342.1 | 393.3 | 365.2 | 366.6 |
| April | 281.4 | 316.7 | 333.9 | 361.6 | 359.0 | 359.1 |
| May | 280.0 | 306.1 | 328.8 | 336.5 | 377.4 | 360.5 |
| June | 265.0 | 271.1 | 315.8 | 340.6 | 328.2 | 341.8 |
| July | 285.5 | 305.9 | 335.9 | 347.1 | 335.8 | 326.4 |
| August | 277.2 | 285.7 | 319.9 | 329.8 | 352.9 | 352.4 |
| September | 256.5 | 278.7 | 330.3 | 314.1 | 333.4 | 325.9 |
| October | 264.8 | 302.4 | 332.8 | 312.5 | 317.7 | 318.7 |
| November | 248.2 | 269.2 | 294.7 | 309.7 | 322.7 | 325.0 |
| December | 256.4 | 294.0 | 332.4 | 323.3 | 307.2 | 322.4 |
| Total | 2,934.3 | 3,155.1 | 3,494.1 | 3,677.6 | 3,723.7 | 3,702.2 |

Sources: Ministry of Commerce and Industry; and Fund staff estimates.

## Table 10. Panama: Monthly Index of Economic Activity

(Base Year 1997=100)

| | Original | Trend | Percent Change Original | Percent Change Trend |
|---|---|---|---|---|
| | (Period Average) | | | |
| 1997 | 100.0 | 100.6 | 6.2 | 6.0 |
| 1998 | 104.7 | 104.6 | 4.7 | 4.0 |
| 1999 | 106.9 | 107.3 | 2.1 | 2.6 |
| 2000 | 109.6 | 111.0 | 2.6 | 3.5 |
| 2001 | 109.8 | 110.3 | 0.2 | -0.6 |
| | (End of period) | | | |
| 1997 | 98.5 | 103.6 | 6.7 | 6.8 |
| 1998 | 102.5 | 106.4 | 4.1 | 2.7 |
| 1999 | 109.0 | 108.1 | 6.3 | 1.6 |
| 2000 | 105.3 | 110.7 | -3.4 | 2.4 |
| 2001 | 105.9 | 110.7 | 0.6 | 0.0 |

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

## Table 11. Panama: Selected Price Indices 1/

(Annual percent change)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (Period average) | | | | | |
| **Consumer price index** | **1.3** | **1.3** | **0.6** | **1.3** | **1.4** | **0.3** |
| **Wholesale price index** | **2.1** | **-2.2** | **-3.9** | **2.7** | **8.7** | **-3.2** |
| Imports | 3.8 | -4.1 | -5.7 | 6.0 | 13.1 | -5.1 |
| Industrial products | 1.3 | -0.9 | -3.3 | -0.3 | 6.2 | -1.9 |
| Agricultural products | -1.9 | 0.6 | 1.5 | 0.8 | 0.6 | 0.5 |
| **GDP deflator** | **0.3** | **1.7** | **3.4** | **-0.1** | **1.5** | **1.2** |
| | (End of period) | | | | | |
| **Consumer price index** | **2.3** | **-0.5** | **1.4** | **1.5** | **0.7** | **0.0** |
| **Wholesale price index** | **3.5** | **-3.9** | **-3.9** | **6.8** | **7.2** | **-9.4** |
| Imports | 6.0 | -6.3 | -5.6 | 12.2 | 10.9 | -13.9 |
| Industrial products | 2.2 | -2.5 | -3.4 | 2.9 | 4.7 | -6.3 |
| Agricultural products | -0.9 | 0.8 | 1.3 | 0.9 | -0.3 | -0.3 |

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

1/ The consumer and wholesale price indices use 1987 as the reference period.

Table 12. Panama: Wholesale Price Index

(1987 = 100)

| | Total | Imports | Industrial | Agricultural |
|---|---|---|---|---|
| | (In percent) | | | |
| Weights | 100.0 | 43.7 | 45.1 | 11.2 |
| | (Period average) | | | |
| 1996 | 118.2 | 126.2 | 112.3 | 111.0 |
| 1997 | 115.5 | 121.0 | 111.2 | 111.7 |
| 1998 | 111.0 | 114.1 | 107.6 | 113.4 |
| 1999 | 114.0 | 120.9 | 107.3 | 114.3 |
| 2000 | 124.0 | 136.7 | 113.9 | 115.0 |
| 2001 | 120.0 | 129.7 | 111.8 | 115.6 |
| | (End of period) | | | |
| 1996 | 120.3 | 129.2 | 113.8 | 112.2 |
| 1997 | 115.6 | 121.1 | 111.0 | 113.1 |
| 1998 | 111.1 | 114.3 | 107.2 | 114.6 |
| 1999 | 118.7 | 128.3 | 110.3 | 115.6 |
| 2000 | 127.2 | 142.3 | 115.5 | 115.9 |
| 2001 | 115.2 | 122.5 | 108.2 | 115.6 |
| 1996 | | | | |
| March | 117.8 | 126.3 | 111.6 | 109.9 |
| June | 117.0 | 124.3 | 111.4 | 111.0 |
| September | 117.6 | 125.0 | 112.2 | 111.0 |
| December | 120.3 | 129.2 | 113.8 | 112.2 |
| 1997 | | | | |
| March | 115.8 | 121.3 | 111.7 | 111.0 |
| June | 115.4 | 120.8 | 111.2 | 111.1 |
| September | 115.3 | 120.7 | 111.0 | 111.7 |
| December | 115.6 | 121.1 | 111.0 | 113.1 |
| 1998 | | | | |
| March | 111.6 | 115.1 | 108.1 | 112.8 |
| June | 111.1 | 113.9 | 108.0 | 113.2 |
| September | 110.2 | 112.9 | 107.1 | 112.8 |
| December | 111.1 | 114.3 | 107.2 | 114.6 |
| 1999 | | | | |
| March | 109.3 | 112.1 | 105.6 | 113.6 |
| June | 111.5 | 118.6 | 104.3 | 114.1 |
| September | 116.4 | 124.7 | 109.1 | 113.8 |
| December | 118.7 | 128.3 | 110.3 | 115.6 |
| 2000 | | | | |
| March | 121.2 | 131.2 | 113.7 | 112.9 |
| June | 123.0 | 135.0 | 113.2 | 115.8 |
| September | 124.4 | 138.3 | 113.3 | 115.3 |
| December | 127.2 | 142.3 | 115.5 | 115.9 |
| 2001 | | | | |
| March | 123.2 | 134.9 | 114.2 | 114.1 |
| June | 121.4 | 131.6 | 112.8 | 116.9 |
| September | 120.1 | 129.9 | 111.8 | 115.8 |
| December | 115.2 | 122.5 | 108.2 | 115.6 |

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

Table 13. Panama: Consumer Price Index

(1987 = 100)

| | Total | Food | Clothing | Housing | Miscellaneous |
|---|---|---|---|---|---|
| | | (In percent) | | | |
| Weights: | 100.0 | 34.9 | 5.1 | 21.0 | 39.0 |
| | | (Period average) | | | |
| 1996 | 108.9 | 111.4 | 109.0 | 108.2 | 106.9 |
| 1997 | 110.2 | 112.2 | 106.8 | 110.5 | 108.7 |
| 1998 | 110.9 | 112.6 | 108.2 | 111.7 | 109.4 |
| 1999 | 112.4 | 112.8 | 108.6 | 114.6 | 111.3 |
| 2000 | 114.0 | 113.6 | 108.9 | 117.4 | 113.2 |
| 2001 | 114.3 | 112.8 | 113.5 | 122.1 | 116.2 |
| | | (End of period) | | | |
| 1996 | 110.6 | 113.6 | 108.8 | 110.2 | 108.4 |
| 1997 | 110.1 | 112.6 | 106.4 | 110.6 | 108.1 |
| 1998 | 111.6 | 112.3 | 108.4 | 114.7 | 109.9 |
| 1999 | 113.3 | 114.1 | 107.8 | 114.5 | 112.7 |
| 2000 | 114.1 | 113.4 | 109.8 | 119.6 | 112.3 |
| 2001 | 114.1 | 112.8 | 113.6 | 124.7 | 113.4 |
| 1996 | | | | | |
| March | 108.4 | 111.3 | 110.2 | 107.0 | 106.4 |
| June | 108.3 | 110.2 | 107.6 | 107.9 | 106.9 |
| September | 109.1 | 111.9 | 109.3 | 108.7 | 106.9 |
| December | 110.6 | 113.6 | 108.8 | 110.2 | 108.4 |
| 1997 | | | | | |
| March | 109.9 | 111.9 | 108.2 | 109.7 | 108.7 |
| June | 110.3 | 112.0 | 106.5 | 110.5 | 109.1 |
| September | 110.6 | 112.7 | 104.4 | 110.8 | 109.4 |
| December | 110.1 | 112.6 | 106.4 | 110.6 | 108.1 |
| 1998 | | | | | |
| March | 110.4 | 112.2 | 108.3 | 110.5 | 108.9 |
| June | 110.8 | 112.7 | 108.2 | 110.5 | 109.7 |
| September | 111.5 | 112.7 | 108.1 | 113.2 | 110.0 |
| December | 111.6 | 112.3 | 108.4 | 114.7 | 109.9 |
| 1999 | | | | | |
| March | 112.0 | 112.6 | 108.9 | 114.5 | 110.4 |
| June | 112.3 | 112.4 | 109.2 | 114.8 | 111.3 |
| September | 112.6 | 112.4 | 108.9 | 114.8 | 112.2 |
| December | 113.3 | 114.1 | 107.8 | 114.5 | 112.7 |
| 2000 | | | | | |
| March | 114.0 | 113.0 | 108.2 | 117.3 | 113.9 |
| June | 114.2 | 113.6 | 108.9 | 117.1 | 113.9 |
| September | 114.2 | 113.3 | 109.1 | 117.1 | 113.9 |
| December | 114.1 | 113.8 | 109.3 | 119.2 | 114.2 |
| 2001 | | | | | |
| March | 114.3 | 112.2 | 112.6 | 121.0 | 117.7 |
| June | 113.8 | 112.7 | 113.9 | 120.4 | 114.1 |
| September | 115.0 | 113.0 | 113.8 | 124.2 | 117.1 |
| December | 114.1 | 112.8 | 113.6 | 124.7 | 113.4 |

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

Table 14. Panama: Operations of the Nonfinancial Public Sector

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Revenue** | **2,271.2** | **2,413.7** | **2,539.1** | **2,790.1** | **2,879.7** | **2,818.6** |
| General government revenue | 1,997.8 | 2,118.3 | 2,319.8 | 2,645.3 | 2,821.2 | 2,639.3 |
| Central government | 1,325.9 | 1,447.4 | 1,582.5 | 1,878.3 | 1,999.1 | 1,820.2 |
| Social security agency | 613.5 | 613.0 | 666.8 | 689.9 | 741.9 | 734.1 |
| Decentralized agencies | 58.4 | 57.9 | 70.4 | 77.2 | 80.2 | 85.0 |
| Public enterprises operating balance (deficit -) | 293.5 | 240.4 | 139.2 | 130.9 | 80.3 | 97.1 |
| Overall balance of nonconsolidated public sector (deficit -) | -16.0 | 20.8 | 70.0 | -22.5 | -68.7 | -2.4 |
| Educational insurance balance (deficit -) | -22.7 | 4.1 | -17.0 | -4.1 | -16.2 | -2.4 |
| Capital revenue | 18.6 | 30.1 | 27.1 | 40.4 | 63.2 | 87.0 |
| **Grants** | **4.6** | **70.6** | **57.3** | **5.0** | **3.8** | **0.6** |
| **Expenditure** | **2,242.1** | **2,498.2** | **2,864.0** | **2,925.7** | **2,953.7** | **3,076.0** |
| General government current expenditure | 1,928.7 | 2,123.7 | 2,283.0 | 2,469.1 | 2,588.8 | 2,713.2 |
| Central government | 1,079.6 | 1,207.3 | 1,327.4 | 1,486.7 | 1,535.8 | 1,589.3 |
| Social security agency | 725.5 | 780.7 | 815.2 | 845.5 | 905.7 | 982.5 |
| Decentralized agencies | 123.5 | 135.7 | 140.4 | 136.9 | 147.3 | 141.4 |
| Capital | 313.4 | 374.6 | 581.0 | 456.7 | 364.8 | 352.8 |
| **Saving 1/** | **323.9** | **259.9** | **229.0** | **280.6** | **227.7** | **18.5** |
| **Overall balance (deficit -) 2/** | **33.6** | **-13.9** | **-267.6** | **-130.7** | **-70.1** | **-256.8** |
| **Financing** | **-33.6** | **13.9** | **267.6** | **130.7** | **70.1** | **246.7** |
| External | -146.1 | 190.3 | **447.0** | **247.5** | **109.9** | **365.3** |
| Disbursements | 262.3 | 1,486.4 | 703.1 | 630.0 | 484.5 | 1,220.5 |
| Repayments | 328.7 | 1,249.0 | 302.3 | 407.0 | 391.3 | 536.9 |
| Debt rescheduling | 3,342.8 | 35.7 | 19.2 | 32.3 | 25.6 | 26.1 |
| Arrears | -3,422.5 | -67.8 | -29.8 | 0.0 | 0.0 | 0.0 |
| Change in deposits abroad | 0.0 | -15.0 | 56.8 | -7.8 | -8.9 | -344.4 |
| Domestic (net) | 117.9 | -172.2 | -155.2 | -79.1 | -12.1 | -234.6 |
| *Of which* : | | | | | | |
| Banking System | 179.8 | -153.1 | -116.4 | -68.4 | -35.1 | 113.4 |
| Arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Privatization | 72.6 | 671.7 | 260.6 | 241.7 | 1.1 | 0.4 |
| Trust fund for development | -78.0 | -675.9 | -284.8 | -279.4 | -28.8 | 115.6 |

Table 14. Panama: Operations of the Nonfinancial Public Sector

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (Annual percent change) | | | | | |
| **Revenue** | **-1.3** | **5.9** | **4.9** | **9.0** | **3.1** | **-2.2** |
| **Expenditure** | **-2.3** | **10.3** | **12.8** | **2.1** | **0.9** | **4.0** |
| Current | -4.9 | 9.2 | 7.0 | 7.5 | 4.6 | 4.6 |
| Capital | 13.2 | 16.3 | 35.5 | -27.2 | -25.2 | -3.4 |
| | (In percent of GDP) | | | | | |
| **Revenue** | **27.9** | **27.9** | **27.2** | **29.0** | **28.7** | **27.7** |
| **Grants** | **0.1** | **0.8** | **0.6** | **0.1** | **0.0** | **0.0** |
| **Expenditure** | **27.5** | **28.9** | **30.6** | **30.4** | **29.5** | **30.2** |
| Current | 23.7 | 24.5 | 24.8 | 27.5 | 28.2 | 25.9 |
| Capital | 3.8 | 4.3 | 6.2 | 4.7 | 3.6 | 3.5 |
| **Saving 1/** | **4.0** | **3.0** | **2.5** | **2.9** | **2.3** | **0.2** |
| **Overall balance (deficit-) 2/** | **0.4** | **-0.2** | **-2.9** | **-1.4** | **-0.7** | **-2.5** |
| **Financing (net)** | **-0.4** | **0.2** | **2.9** | **1.4** | **0.7** | **2.4** |
| External | -1.8 | 2.2 | 4.8 | 2.6 | 1.1 | 3.6 |
| Domestic (net) | 1.4 | -2.0 | -1.7 | -0.8 | -0.1 | -2.3 |
| Privatization | 0.9 | 7.8 | 2.8 | 2.5 | 0.0 | 0.0 |
| Trust fund for development 3/ | -1.0 | -7.8 | -3.0 | -2.9 | -0.3 | 1.1 |
| External interest obligations | 2.9 | 3.2 | 3.0 | 2.9 | 0.3 | -1.1 |
| | (In millions of balboas) | | | | | |
| **Memorandum items:** | | | | | | |
| External interest obligations | 241.6 | 281.6 | 289.5 | 364.5 | 360.9 | 415.5 |
| GDP (market prices) | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

Sources: Office of the Comptroller General; Ministry of Economy and Finance; and Fund staff estimates

1/ Current revenue less current expenditure.

2/ Revenue and grants, less expenditure.

3/ The Trust Fund for Development invests divestment proceeds abroad and transfers its investment income to the central government to finance development projects, including social projects.

Table 15. Panama: Central Government Operations

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Revenue** | **1,544.6** | **1,600.4** | **1,708.5** | **1,937.2** | **2,108.4** | **1,901.6** |
| Tax revenue | 984.9 | 1,043.5 | 1,104.1 | 1,211.2 | 1,120.1 | 1,038.5 |
| Income tax | 392.4 | 416.9 | 399.5 | 508.4 | 494.2 | 453.8 |
| Wealth taxes | 45.4 | 47.1 | 51.7 | 59.6 | 52.7 | 60.9 |
| Taxes on foreign trade | 193.6 | 219.0 | 251.4 | 240.1 | 201.9 | 172.4 |
| Taxes on domestic transactions | 353.5 | 360.5 | 401.5 | 403.0 | 371.3 | 351.4 |
| Nontax revenue | 558.2 | 554.3 | 604.3 | 726.0 | 988.3 | 863.1 |
| Panama Canal | 94.1 | 95.4 | 96.3 | 138.8 | 142.4 | 141.1 |
| Oil pipeline royalties | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Transfers from the rest of public sector | 345.9 | 257.6 | 223.5 | 154.5 | 340.4 | 233.6 |
| Other | 118.2 | 201.3 | 284.5 | 320.6 | 365.0 | 384.7 |
| Capital revenue | 1.5 | 2.5 | 1.4 | 3.2 | 1.2 | 58.6 |
| **Grants** | **4.6** | **70.6** | **57.3** | **5.0** | **3.8** | **0.6** |
| **Expenditure** | **1,487.2** | **1,667.5** | **2,228.5** | **2,173.0** | **2,242.1** | **2,276.6** |
| Current | 1,327.1 | 1,480.5 | 1,797.8 | 1,828.4 | 1,959.4 | 1,973.3 |
| Wages and salaries | 568.5 | 592.4 | 636.8 | 630.0 | 641.7 | 673.6 |
| Goods and Services | 112.5 | 147.5 | 144.3 | 163.2 | 178.3 | 172.3 |
| Pensions and transfers | 385.7 | 394.1 | 648.1 | 485.1 | 615.7 | 561.5 |
| *Of which:* | | | | | | |
| Social security agency | 170.7 | 194.0 | 400.0 | 260.1 | 346.4 | 297.7 |
| Decentralized agencies | 74.5 | 76.6 | 78.4 | 83.5 | 85.0 | 92.1 |
| Public enterprises | 2.2 | 2.6 | 2.0 | 2.1 | 2.0 | 3.0 |
| Interest | 251.4 | 299.7 | 321.8 | 447.7 | 479.0 | 500.4 |
| Internal | 28.6 | 32.9 | 42.3 | 83.2 | 121.5 | 93.7 |
| External | 222.8 | 266.8 | 279.5 | 364.5 | 357.5 | 406.7 |
| Other current expenditure | 8.9 | 46.9 | 46.8 | 47.5 | 44.8 | 91.5 |
| Capital | 160.1 | 187.0 | 430.7 | 344.6 | 282.7 | 303.3 |
| Fixed capital formation | 117.8 | 131.9 | 381.9 | 308.9 | 228.8 | 228.2 |
| Transfers of capital | 42.3 | 55.1 | 48.8 | 35.7 | 53.9 | 75.1 |
| To public enterprises | 1.9 | 5.5 | 3.5 | 2.1 | 5.1 | 17.9 |
| **On lending** | **48.0** | **-30.0** | **0.0** | **0.0** | **0.0** | **1.0** |
| **Saving 1/** | **216.0** | **117.4** | **-90.8** | **105.5** | **147.8** | **-130.3** |
| **Overall balance (deficit-) 2/** | **14.0** | **3.5** | **-461.3** | **-227.6** | **-128.6** | **-315.8** |
| | (In millions of balboas) | | | | | |
| **Financing** | **-14.0** | **-3.5** | **461.4** | **227.7** | **137.5** | **851.6** |
| External | -96.9 | 240.1 | 471.8 | 264.1 | 137.6 | 709.6 |
| Disbursements | 250.6 | 1,483.1 | 655.0 | 625.3 | 484.5 | 1,220.5 |
| Repayments | 274.6 | 1,195.9 | 231.1 | 393.0 | 381.3 | 536.9 |
| Debt rescheduling | 3,342.8 | 35.7 | 19.2 | 31.8 | 25.6 | 26 |
| Arrears | -3,415.7 | -67.8 | 0.0 | 0.0 | 0 | 0.0 |
| Change in deposits abroad | 0.0 | -15.0 | 28.7 | 0.0 | 8.8 | |
| Domestic (net) | 88.3 | -243.6 | -10.5 | -36.4 | -0.1 | 26.0 |
| *Of which:* | | | | | | |
| Banking system | 222.0 | -132.3 | -159.2 | 106.2 | -142.5 | -165.4 |
| Arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Privatization | 72.6 | 671.7 | 260.5 | 241.4 | 1.1 | 0.0 |
| Trust Fund for Development 3/ | -78.0 | -671.7 | -260.5 | -241.1 | -1.1 | 116.0 |

Table 15. Panama: Central Government Operations

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (Annual percent change) | | | | | |
| **Current revenue** | **4.8** | **3.6** | **6.8** | **13.4** | **8.8** | **-9.8** |
| Tax revenue | -0.5 | 5.9 | 5.8 | 9.7 | -7.5 | -7.3 |
| Nontax revenue | 15.9 | -0.7 | 9.0 | 20.1 | 36.1 | -12.7 |
| **Total expenditure** | **-8.6** | **12.1** | **33.6** | **-2.5** | **3.2** | **1.5** |
| Current expenditure | -10.0 | 11.6 | 21.4 | 1.7 | 7.2 | 0.7 |
| Capital expenditure | 4.4 | 16.8 | 130.3 | -20.0 | -18.0 | 7.3 |
| | (In percent of GDP) | | | | | |
| **Current revenue** | **18.9** | **18.5** | **18.3** | **20.1** | **21.0** | **18.7** |
| Tax revenue | 12.1 | 12.1 | **11.8** | **12.6** | **11.2** | **10.2** |
| Nontax revenue | 6.8 | 6.4 | **6.5** | **7.5** | **9.9** | **8.5** |
| **Total expenditure** | **18.2** | **19.3** | **23.8** | **22.5** | **22.4** | **22.4** |
| Current expenditure | 16.3 | 17.1 | 19.2 | 19.0 | 19.6 | 19.4 |
| Capital expenditure | 2.0 | 2.2 | 4.6 | 3.6 | 2.8 | 3.0 |
| **Saving 1/** | **2.6** | **1.4** | **-1.0** | **1.1** | **1.5** | **-1.3** |
| **Overall balance (deficit -) 2/** | **0.2** | **0.0** | **-4.9** | **-2.4** | **-1.3** | **-3.1** |
| **Financing (net)** | **-0.2** | **0.0** | **4.9** | **2.4** | **1.4** | **8.4** |
| External | -1.2 | 2.8 | 5.0 | 2.7 | 1.4 | 7.0 |
| Domestic | 1.1 | -2.8 | -0.1 | -0.4 | 0.0 | 0.3 |
| Privatization | 0.9 | 7.8 | 2.8 | 2.5 | 0.0 | 0.0 |
| Trust Fund for Development 3/ | -1.0 | -7.8 | -2.8 | -2.5 | 0.0 | 1.1 |
| | (In millions of balboas) | | | | | |
| **Memorandum items:** | | | | | | |
| **Nominal GDP** | | | | | | |
| GDP (market prices) | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

Sources: Office of the Comptroller General; Ministry of Economy and Finance; and Fund staff estimates

1/ Current revenue less current expenditure.

2/ Revenue and grants, less expenditure.

3/ The Trust Fund for Development invests divestment proceeds abroad and transfers its investment income to the central government to finance development projects, including social projects.

## Table 16. Panama: Central Government Revenue

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Total revenue (including grants)** | **1,549.2** | **1,670.9** | **1,765.5** | **1,942.2** | **2,112.2** | **1,902.2** |
| **Tax revenue** | **984.9** | **1,043.5** | **1,103.9** | **1,211.2** | **1,120.1** | **1,038.5** |
| **Direct taxes** | **437.8** | **464.0** | **451.2** | **568.1** | **547.0** | **514.7** |
| Income tax | 392.4 | 416.9 | 399.5 | 508.4 | 494.2 | 453.8 |
| Wealth tax | 45.4 | 47.1 | 51.7 | 59.6 | 52.7 | 60.9 |
| **Taxes on foreign trade** | **193.6** | **219.0** | **251.4** | **240.1** | **201.9** | **172.4** |
| Export taxes | 9.4 | 6.2 | 2.9 | 0.6 | 0.2 | 0.0 |
| Import taxes | 184.2 | 212.8 | 248.5 | 239.6 | 201.7 | 172.4 |
| **Taxes on domestic transactions** | **353.5** | **360.5** | **401.3** | **403.0** | **371.3** | **351.4** |
| Tobacco and beverages | 37.1 | 40.2 | 38.0 | 33.4 | 32.5 | 33.4 |
| Value added tax | 154.6 | 163.5 | 182.5 | 187.5 | 165.6 | 154.1 |
| Petroleum products | 97.6 | 93.9 | 115.2 | 122.0 | 108.8 | 106.9 |
| Other | 30.7 | 25.6 | 65.8 | 60.1 | 64.4 | 57.1 |
| **Nontax revenue** | **558.2** | **554.3** | **604.3** | **726.0** | **988.3** | **863.1** |
| Panama Canal | 94.1 | 95.4 | 96.3 | 138.8 | 142.4 | 141.1 |
| Oil pipeline royalties | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other Services | 118.2 | 181.0 | 212.3 | 194.7 | 176.2 | 161.8 |
| Transfers from rest of public sector | 345.9 | 257.6 | 223.5 | 154.5 | 340.4 | 233.6 |
| *Of which:* | | | | | | |
| Consolidated public sector | 217.2 | 150.4 | 125.9 | 58.9 | 109.2 | 81.4 |
| Nonconsolidated public sector | 64.3 | 107.2 | 97.5 | 95.5 | 231.2 | 152.2 |
| Interest earnings and dividends | 0.0 | 20.3 | 42.7 | 89.9 | 107.4 | 112.4 |
| **Capital revenue** | **1.5** | **2.5** | **1.4** | **3.2** | **1.2** | **58.6** |
| **Grants** | **4.6** | **70.6** | **57.3** | **5.0** | **3.8** | **0.6** |
| | (In percent of GDP) | | | | | |
| **Total revenue** | **19.0** | **19.3** | **18.9** | **20.2** | **21.1** | **18.7** |
| **Tax revenue** | **12.1** | **12.1** | 11.8 | 12.6 | 11.2 | 10.2 |
| Direct taxes | 5.4 | 5.4 | 4.8 | 5.9 | 5.5 | 5.1 |
| Income tax | 4.8 | 4.8 | 4.3 | 5.3 | 4.9 | 4.5 |
| Wealth tax | 0.6 | 0.5 | 0.6 | 0.6 | 0.5 | 0.6 |
| Taxes on foreign trade | 2.4 | 2.5 | 2.7 | 2.5 | 2.0 | 1.7 |
| Export taxes | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Import taxes | 2.3 | 2.5 | 2.7 | 2.5 | 2.0 | 1.7 |
| Taxes on domestic transactions | 4.3 | 4.2 | 4.3 | 4.2 | 3.7 | 3.5 |
| Tobacco and beverages | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 |
| Value added tax | 1.9 | 1.9 | 2.0 | 1.9 | 1.7 | 1.5 |
| Petroleum products | 1.2 | 1.1 | 1.2 | 1.3 | 1.1 | 1.1 |
| Stamp taxes | 0.4 | 0.4 | 0.4 | 0.0 | 0.0 | 0.0 |
| Other | 0.4 | 0.3 | 0.7 | 0.6 | 0.6 | 0.6 |
| **Nontax revenue** | **6.8** | **6.4** | **6.5** | **7.5** | **9.9** | **8.5** |
| Panama Canal | 1.2 | 1.1 | 1.0 | 1.4 | 1.4 | 1.4 |
| Oil pipeline royalties | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Services | 1.5 | 2.1 | 2.3 | 2.0 | 1.8 | 1.6 |
| Transfers from rest of public sector | 4.2 | 3.0 | 2.4 | 1.6 | 3.4 | 2.3 |
| *Of which:* | | | | | | |
| Consolidated public sector | 2.7 | 1.7 | 1.3 | 0.6 | 1.1 | 0.8 |
| Nonconsolidated public sector | 0.8 | 1.2 | 1.0 | 1.0 | 2.3 | 1.5 |
| Interest earnings and dividends | 0.0 | 0.2 | 0.5 | 0.9 | 1.1 | 1.1 |
| **Capital revenue** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.6** |
| **Grants** | **0.1** | **0.8** | **0.6** | **0.1** | **0.0** | **0.0** |
| | (In millions of balboas) | | | | | |
| **Memorandum Item:** | | | | | | |
| GDP (Market Prices) | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

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

Table 17. Panama: Central Government Expenditure

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Total expenditure 1/** | **1,487.2** | **1,667.5** | **2,228.5** | **2,173.0** | **2,242.1** | **2,276.6** |
| **Current expenditure** | **1,327.1** | **1,480.5** | **1,797.8** | **1,828.4** | **1,959.4** | **1,973.3** |
| Wages and salaries | 568.5 | 592.4 | 636.8 | 630.0 | 641.7 | 673.6 |
| Goods and services | 112.5 | 147.5 | 144.3 | 163.2 | 178.3 | 172.3 |
| Interest | 251.4 | 299.7 | 321.8 | 447.7 | 479.0 | 500.4 |
| Pensions and transfers | 385.7 | 394.1 | 648.1 | 485.1 | 615.7 | 561.5 |
| Other | 8.9 | 46.9 | 46.8 | 47.5 | 44.8 | 91.5 |
| **Capital expenditure** | **160.1** | **187.0** | **430.7** | **344.6** | **282.7** | **303.3** |
| Investment | 117.8 | 131.9 | 381.9 | 308.9 | 228.8 | 228.2 |
| Transfers | 42.3 | 55.1 | 48.8 | 35.7 | 53.9 | 75.1 |
| **Memorandum item:** | | | | | | |
| Noninterest expenditure | 1,235.8 | 1,367.8 | 1,906.6 | 1,725.3 | 1,763.1 | 1,776.2 |
| | (In percent of GDP) | | | | | |
| **Total expenditure 1/** | **18.2** | **19.3** | **23.8** | **22.5** | **22.4** | **22.4** |
| **Current expenditure** | **16.3** | **17.1** | **19.2** | **19.0** | **19.6** | **19.4** |
| Wages and salaries | 7.0 | 6.8 | 6.8 | 6.5 | 6.4 | 6.6 |
| Goods and services | 1.4 | 1.7 | 1.5 | 1.7 | 1.8 | 1.7 |
| Interest | 3.1 | 3.5 | 3.4 | 4.6 | 4.8 | 4.9 |
| Pensions and transfers | 4.7 | 4.6 | 6.9 | 5.0 | 6.1 | 5.5 |
| Other | 0.1 | 0.5 | 0.5 | 0.5 | 0.4 | 0.9 |
| **Capital expenditure** | **2.0** | **2.2** | **4.6** | **3.6** | **2.8** | **3.0** |
| Investment | 1.4 | 1.5 | 4.1 | 3.2 | 2.3 | 2.2 |
| Transfers | 0.5 | 0.6 | 0.5 | 0.4 | 0.5 | 0.7 |
| **Memorandum item:** | | | | | | |
| Noninterest expenditure | 15.2 | 15.8 | 20.4 | 17.9 | 17.6 | 17.5 |
| | (Annual percent change) | | | | | |
| **Total expenditure** | **-8.6** | **12.1** | **33.6** | **-2.5** | **3.2** | **1.5** |
| **Current expenditure** | **-10.0** | **11.6** | **21.4** | **1.7** | **7.2** | **0.7** |
| Wages and salaries | 4.7 | 4.2 | 7.5 | -1.1 | 1.9 | 5.0 |
| Goods and services | 0.6 | 31.1 | -2.2 | 13.1 | 9.2 | -3.4 |
| Interest | -36.3 | 19.2 | 7.4 | 39.1 | 7.0 | 4.5 |
| Pensions and transfers | -7.5 | 2.2 | 64.4 | -25.2 | 26.9 | -8.8 |
| Other | 15.7 | 427.0 | -0.1 | 1.3 | -5.7 | 104.4 |
| **Capital expenditure** | **4.4** | **16.8** | **130.3** | **-20.0** | **-18.0** | **7.3** |
| Investment | 3.7 | 12.0 | 189.5 | -19.1 | -26.0 | -0.2 |
| Transfers | 6.3 | 30.3 | -11.4 | -26.9 | 51.2 | 39.3 |
| | (In millions of balboas) | | | | | |
| **Memorandum Item:** | | | | | | |
| GDP Market Prices | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

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

1/ Does not include on lending.

Table 18. Panama: Operations of the Social Security Agency

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Current revenue** | **613.5** | **613.0** | **666.8** | **689.9** | **741.9** | **734.1** |
| Contributions | 475.0 | 488.8 | 522.9 | 556.9 | 592.4 | 584.6 |
| Professional risk premium | 38.5 | 36.8 | 40.6 | 44.3 | 46.5 | 44.1 |
| Administered funds | 24.3 | 11.9 | 6.9 | 6.7 | 7.5 | 6.8 |
| Income from investment | 59.5 | 58.5 | 64.3 | 63.4 | 68.0 | 72.2 |
| Other | 16.2 | 17.0 | 32.1 | 18.6 | 27.5 | 26.4 |
| **Current expenditure** | **725.5** | **780.6** | **815.2** | **846.0** | **906.1** | **982.8** |
| Wages | 151.4 | 156.2 | 166.0 | 171.6 | 180.3 | 204.2 |
| Goods and services | 90.6 | 97.5 | 104.2 | 111.8 | 120.6 | 134.0 |
| Transfers | 482.6 | 526.2 | 544.4 | 562.0 | 604.8 | 644.3 |
| Domestic interest | 1.0 | 0.7 | 0.6 | 0.5 | 0.4 | 0.3 |
| **Operating balance (deficit -)** | **-112.0** | **-167.6** | **-148.4** | **-156.1** | **-164.3** | **-248.7** |
| **Current transfers (net)** | **170.7** | **193.5** | **399.5** | **259.6** | **345.8** | **296.9** |
| Transfers from central government | 170.7 | 194.0 | 400.0 | 260.1 | 346.4 | 297.7 |
| Transfers to central government | 0.0 | 0.5 | 0.5 | 0.5 | 0.5 | 0.8 |
| **Capital revenue** | **12.2** | **9.7** | **10.5** | **11.7** | **15.1** | **15.3** |
| **Saving 1/** | **70.9** | **35.6** | **262.2** | **115.6** | **197.2** | **64.3** |
| **Capital expenditure** | **37.1** | **24.2** | **27.0** | **27.2** | **22.1** | **20.9** |
| Fixed investment | 20.2 | 24.2 | 27.0 | 27.2 | 22.1 | 20.9 |
| Financial investment | 16.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance (deficit -)** | **33.8** | **11.4** | **234.7** | **87.9** | **174.6** | **42.6** |
| | (In percent of GDP) | | | | | |
| **Current revenue** | **7.5** | **7.1** | **7.1** | **7.2** | **7.4** | **7.2** |
| *Of which:* Contributions | 5.8 | 5.6 | 5.6 | 5.8 | 5.9 | 5.7 |
| **Current Expenditure** | **8.9** | **9.0** | **8.7** | **8.8** | **9.0** | **9.7** |
| **Operating balance (deficit -)** | **-1.4** | **-1.9** | **-1.6** | **-1.6** | **-1.6** | **-2.4** |
| **Current transfers (net)** | **2.1** | **2.2** | **4.3** | **2.7** | **3.5** | **2.9** |
| **Overall balance (deficit -)** | **0.4** | **0.1** | **2.5** | **0.9** | **1.7** | **0.4** |
| | (in millions of balboas) | | | | | |
| **Memorandum Item:** | | | | | | |
| GDP (Market Prices) | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

Sources: Social Security Agency; Ministry of Economy and Finance; and Fund staff estimates.

1/ Including capital revenue.

Table 19. Panama: Operations of the Decentralized Agencies 1/

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Operating revenue** | **58.4** | **57.9** | **70.4** | **77.2** | **80.2** | **85.0** |
| **Operating expenditure** | **123.5** | **135.7** | **140.4** | **140.4** | **153.3** | **147.2** |
| Interest | 6.2 | 6.7 | 9.0 | 3.6 | 6.0 | 5.8 |
| Other | 117.4 | 129.0 | 131.3 | 136.9 | 147.3 | 141.4 |
| **Operating balance (deficit -)** | **-65.1** | **-77.8** | **-70.0** | **-63.2** | **-73.2** | **-62.2** |
| **Current transfers (net)** | **70.0** | **76.6** | **74.4** | **83.3** | **57.9** | **69.7** |
| Transfers from central government | 74.5 | 76.6 | 78.4 | 83.5 | 85.0 | 92.1 |
| Transfers to central government | 4.6 | 0.0 | 4.0 | 0.2 | 27.1 | 22.4 |
| Transfers from public enterprises 2/ | -9.1 | 0.0 | 0.0 | 1.0 | 2.0 | 3.0 |
| Capital transfers from central government | 6.4 | 2.4 | 3.3 | 2.1 | 4.2 | 16.1 |
| Capital revenue | 1.7 | 10.8 | 15.1 | 25.5 | 17.3 | 13.0 |
| **Saving 3/** | **6.5** | **9.6** | **16.3** | **43.5** | **-2.2** | **4.4** |
| **Capital expenditure** | **20.3** | **23.0** | **24.5** | **19.0** | **30.5** | **25.0** |
| Fixed investment | 15.6 | 23.0 | 24.5 | 19.0 | 30.5 | 25.0 |
| Net lending | 4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance (deficit -)** | **-7.3** | **11.0** | **-5.0** | **26.6** | **-28.4** | **11.6** |
| | (In percent of GDP) | | | | | |
| Operating revenue | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Operating expenditure | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 |
| Operating balance (deficit -) | -0.8 | -0.9 | -0.7 | -0.7 | -0.7 | -0.6 |
| Current transfers (net) | 0.9 | 0.9 | 0.8 | 0.9 | 0.6 | 0.7 |
| Overall balance (deficit -) | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 0.9 |
| (In millions of balboas) | | | | | | |
| **Memorandum item:** | | | | | | |
| GDP (Market Prices) | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

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

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

2/ Transfers received to finance vocational training.

3/ Including capital revenue.

Table 20. Panama: Operations of the Public Enterprises 1/

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Current revenue** | **740.6** | **637.6** | **503.8** | **266.2** | **238.9** | **244.0** |
| **Operating expenditure** | **447.2** | **397.2** | **369.4** | **142.7** | **159.4** | **146.9** |
| Wages and salaries | 174.3 | 122.5 | 95.9 | 45.8 | 46.1 | 47.0 |
| Goods and services | 152.3 | 127.7 | 174.5 | 58.9 | 58.7 | 61.5 |
| Transfers | 73.1 | 60.6 | 25.4 | 16.6 | 27.6 | 20.0 |
| Other | 27.8 | 59.1 | 50.1 | 11.3 | 22.7 | 12.5 |
| Interest | 19.6 | 27.3 | 23.6 | 10.1 | 4.3 | 5.9 |
| Domestic Interest | 0.8 | 12.5 | 7.7 | 2.7 | 4.3 | 5.9 |
| **Operating balance (deficit -)** | **293.4** | **240.4** | **134.4** | **123.5** | **79.5** | **97.1** |
| **Current transfers net of taxes** | **-210.4** | **-147.3** | **-119.6** | **-56.1** | **-79.6** | **-57.0** |
| Transfers from central government | 2.2 | 2.6 | 2.0 | 2.1 | 2.0 | 3.0 |
| Transfers to central government | -212.6 | -149.9 | -121.4 | -58.2 | -81.6 | -58.2 |
| Transfers to rest of public sector | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 |
| Capital revenue | 3.3 | 7.0 | 0.0 | 0.0 | 1.8 | 0.1 |
| Capital transfers from central government | 1.9 | 5.5 | 0.2 | 0.0 | 0.9 | 1.8 |
| **Saving 2/** | **86.3** | **100.1** | **14.8** | **67.4** | **1.6** | **40.2** |
| **Capital expenditure** | **104.3** | **96.2** | **102.3** | **67.9** | **34.7** | **21.5** |
| Net borrowing | 48.0 | -30.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance (deficit -)** | **31.9** | **-20.6** | **-87.3** | **-0.5** | **-32.2** | **20.5** |
| | (In percent of GDP ) | | | | | |
| Current revenue | 9.1 | 7.4 | 5.4 | 2.8 | 2.4 | 2.4 |
| Operating expenditure | 5.5 | 4.6 | 4.0 | 1.5 | 1.6 | 1.4 |
| Operating balance (deficit -) | 3.6 | 2.8 | 1.4 | 1.3 | 0.8 | 1.0 |
| Current transfers (net) | -2.6 | -1.7 | -1.3 | -0.6 | -0.8 | -0.6 |
| Capital expenditure | 1.3 | 1.1 | 1.1 | 0.7 | 0.3 | 0.2 |
| Overall balance (deficit -) | 0.4 | -0.2 | -0.2 | 0.8 | 1.8 | 0.2 |
| | (In millions of balboas) | | | | | |
| **Memorandum Item:** | | | | | | |
| GDP (Market Prices) | 8,151.1 | 8,657.5 | 9,344.7 | 9,636.6 | 10,019.0 | 10,170.8 |

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

1/ Includes the operations of the Hydraulic Resources and Electricity Institute (IHRE), National Telecommunications Institute (INTEL) (until May 1997), Colon Free Zone (operating agency), Civil Aviation Authority, National Water and Sewerage Institute (IDAAN), La Victoria Sugar Corporation, Tourism Institute, Bayano Cement Plant (until September 1994), and the Port Authority which on March 1, 1997 privatized about three quarters of its operations.

2/ Including capital revenue.

Table 21. Panama: Nonfinancial Public Sector Gross Domestic Debt

(In millions of balboas; end of period)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Consolidated nonfinancial public sector** | 1,136.6 | 1,168.3 | 1,073.5 | 1,425.7 | 1,304.0 | 1,327.3 |
| Loans | 207.0 | 230.2 | 245.8 | 217.2 | 190.7 | 140.4 |
| Securities | 929.5 | 938.1 | 827.7 | 1,208.5 | 1,113.3 | 1,186.9 |
| **Central government** | 1,792.2 | 1,735.6 | 1,736.0 | 2,107.4 | 2,089.8 | 2,089.4 |
| Loans | 196.7 | 223.2 | 243.1 | 198.4 | 151.8 | 90.4 |
| Securities | 1,595.5 | 1,512.4 | 1,492.9 | 1,909.0 | 1,938.0 | 1,999.0 |

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

# Table 22. Panama: Accounts of the Banking System 1/

(In millions of balboas: end of period)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | I. National Bank of Panama | | | | | |
| **Net foreign assets** | **878.3** | **1,016.2** | **848.2** | **768.3** | **660.8** | **1,064.4** |
| Net foreign reserves | 952.1 | 1,082.3 | 906.3 | 824.5 | 707.1 | 1,116.1 |
| Assets | 1,016.5 | 1,147.2 | 954.3 | 871.0 | 755.6 | 1,156.1 |
| Reserve position with IMF | 17.1 | 16.0 | 16.7 | 15.8 | 15.2 | 16.8 |
| SDR holdings 2/ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign currencies | 253.1 | 77.1 | 57.2 | 69.5 | 69.9 | 83.5 |
| Bonds | 150.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deposits abroad | 596.3 | 1,054.2 | 880.4 | 785.7 | 670.5 | 1,055.7 |
| Short term liabilities 3/ | 59.6 | 60.9 | 42.3 | 41.7 | 43.0 | 26.3 |
| Deposits from nonresidents | 4.7 | 4.1 | 5.8 | 4.8 | 5.6 | 13.7 |
| **Long-term foreign liabilities** | **73.8** | **66.1** | **58.0** | **56.2** | **46.3** | **51.7** |
| *Of which:* | | | | | | |
| FIVEN | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| PEMEX | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 73.8 | 66.1 | 58.0 | 56.2 | 46.3 | 51.7 |
| **Net domestic reserves** | **352.9** | **515.5** | **680.2** | **718.7** | **610.5** | **331.0** |
| Domestic currency | 2.2 | 2.2 | 2.6 | 3.0 | 3.7 | 3.8 |
| Interbank deposits (net) | 321.1 | 487.0 | 635.6 | 650.6 | 552.9 | 266.3 |
| Checks in clearing | 29.6 | 26.4 | 42.0 | 65.1 | 53.9 | 60.8 |
| Net domestic assets | -932.3 | -1,184.3 | -1,140.3 | -1,090.3 | -838.6 | -829.9 |
| Public sector (net) | -853.1 | -1,072.7 | -1,058.2 | -1,197.6 | -1,149.4 | -1,368.6 |
| Central government (net) | 609.7 | 399.2 | 460.0 | 331.8 | 177.5 | -49.6 |
| Rest of public sector (net) | -1,462.7 | -1,471.9 | -1,518.1 | -1,529.5 | -1,326.9 | -1,319.0 |
| *Of which:* Social Security | -865.4 | -971.5 | -1,105.3 | -1,169.6 | -1,078.1 | -1,111.5 |
| Private sector | 301.0 | 322.4 | 403.3 | 583.8 | 747.8 | 976.0 |
| Official capital and surplus | -387.1 | -436.0 | -506.8 | -500.0 | -500.0 | -500.0 |
| Unclassified assets (net) (check) | 6.8 | 2.1 | 21.5 | 23.5 | 63.0 | 62.6 |
| Other assets (net) | 25.0 | 19.0 | 38.9 | 39.3 | 78.2 | 79.4 |
| Other liabilities (net) | -20.8 | -19.5 | -20.4 | -19.3 | -18.5 | -20.5 |
| USAID facility | 1.2 | 0.9 | 0.8 | 0.0 | 0.0 | 0.0 |
| SDR allocation | 37.8 | 35.5 | 37.1 | 35.1 | 33.7 | 37.3 |
| **Liabilities to domestic private sector** | **298.9** | **347.4** | **388.2** | **396.7** | **432.8** | **565.5** |
| Demand deposits | 67.6 | 99.3 | 96.6 | 92.1 | 59.0 | 85.1 |
| Time deposits | 117.7 | 118.4 | 124.8 | 115.9 | 164.1 | 245.4 |
| Savings deposits | 109.5 | 126.0 | 158.6 | 180.6 | 203.4 | 228.6 |
| Cashier's checks in circulation | 4.1 | 3.7 | 8.2 | 8.1 | 6.4 | 6.4 |
| | II. Private Banks | | | | | |
| **Net foreign reserves** | **1,529.5** | **1,770.1** | **1,464.0** | **517.5** | **840.0** | **619.0** |
| **Assets** | **5,230.1** | **5,266.5** | **4,033.4** | **3,787.2** | **4,143.6** | **4,084.0** |
| Foreign currencies | 119.7 | 149.5 | 137.4 | 187.6 | 139.1 | 304.0 |
| Deposits abroad | 3,881.8 | 4,490.3 | 3,384.0 | 3,229.6 | 3,533.4 | 3,314.0 |
| Other unclassified | 1,228.6 | 626.6 | 512.0 | 370.0 | 471.1 | 466.0 |

## Table 22. Panama: Accounts of the Banking System 1/

(In millions of balboas: end of period)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Liabilities** | **956.0** | **539.2** | **423.4** | **565.9** | **360.5** | **445.0** |
| Overseas operations (net) | -2,744.7 | -2,957.2 | -2,146.1 | -2,703.8 | -2,943.2 | -3,020.0 |
| Credit to nonresidents | 10,253.6 | 11,328.7 | 9,175.3 | 8,574.8 | 8,475.2 | 8,619.0 |
| Deposits from nonresidents | 9,531.1 | 10,612.4 | 7,513.1 | 7,709.3 | 7,230.3 | 7,113.0 |
| Foreign banks | 6,267.1 | 7,472.7 | 5,495.3 | 5,568.4 | 4,987.1 | 5,094.0 |
| Private nonresidents | 3,263.9 | 3,139.7 | 2,017.8 | 2,140.8 | 2,243.2 | 2,019.0 |
| Other foreign liabilities | 3,467.2 | 3,673.5 | 3,808.3 | 3,569.4 | 4,188.1 | 4,526.0 |
| **Net domestic reserves** | **-614.3** | **-722.1** | **-845.3** | **-631.3** | **-663.3** | **-485.0** |
| Domestic currency | 10.1 | 14.7 | 12.0 | 18.8 | 11.7 | 0.0 |
| Interbank deposits (net) | -624.4 | -736.9 | -857.3 | -650.0 | -675.0 | -485.0 |
| **Net domestic assets** | **5,980.3** | **6,925.3** | **8,375.6** | **9,810.2** | **10,527.7** | **11,339.0** |
| Public sector (net) | 72.5 | 151.9 | 54.5 | 121.8 | 136.6 | 206.5 |
| Private sector | 6,354.4 | 7,237.5 | 9,041.8 | 10,528.3 | 11,117.2 | 11,766.5 |
| Unclassified assets (net) | -446.7 | -464.1 | -720.8 | -839.9 | -726.1 | -634.0 |
| **Liabilities to the private sector** | **6,895.5** | **7,973.3** | **8,994.3** | **9,696.5** | **10,704.4** | **11,473.0** |
| Monetary liabilities | 5,234.7 | 6,028.2 | 6,822.7 | 7,438.8 | 8,149.6 | 8,842.0 |
| Demand deposits | 758.3 | 889.7 | 1,027.5 | 1,062.2 | 1,094.7 | 1,193.0 |
| Time and savings deposits | 4,476.5 | 5,138.6 | 5,795.3 | 6,376.7 | 7,054.9 | 7,649.0 |
| Time deposits | 3,672.5 | 4,203.1 | 4,700.8 | 5,140.6 | 5,838.8 | 6,173.0 |
| Savings deposits | 804.0 | 935.5 | 1,094.5 | 1,236.1 | 1,216.1 | 1,476.0 |
| Private capital and surplus | 1,660.8 | 1,945.1 | 2,171.5 | 2,257.7 | 2,554.9 | 2,631.0 |
| III. Savings Bank | | | | | | |
| **Foreign assets (net)** | **-2.0** | **-1.5** | **1.4** | **9.7** | **5.3** | **9.6** |
| **Net domestic reserves** | **146.3** | **161.4** | **184.0** | **175.2** | **200.2** | **-1.4** |
| Domestic currency | 0.2 | 0.2 | 0.1 | 0.0 | 0.1 | 0.1 |
| Deposits in local banks (net) | 142.1 | 157.9 | 180.3 | 171.8 | 196.1 | -2.9 |
| Demand deposits | 2.2 | 3.8 | 3.0 | 4.7 | 5.6 | 5.4 |
| Time deposits | 165.0 | 188.7 | 183.4 | 167.1 | 204.8 | 18.0 |
| Deposits of banks | -25.1 | -34.7 | -6.1 | 0.0 | -14.3 | -26.4 |
| Checks in clearing 4/ | 4.0 | 3.3 | 3.7 | 3.4 | 3.9 | 1.5 |
| **Net domestic assets** | **175.6** | **188.1** | **177.0** | **204.8** | **170.4** | **396.0** |
| Public sector (net) | -77.1 | -86.6 | -108.6 | -105.0 | -203.2 | -259.7 |
| Central government | 5.9 | 4.7 | 0.7 | 3.7 | 0.7 | 1.5 |
| Loans and advances | 5.9 | 4.7 | 0.7 | 3.7 | 0.7 | 1.5 |
| Deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rest of public sector | -83.0 | -91.3 | -109.3 | -108.7 | -203.9 | -261.2 |
| Loans and advances | 0.0 | -18.0 | -96.0 | -96.0 | -126.0 | -118.0 |
| Deposits | -83.0 | -73.3 | -13.3 | -12.7 | -77.9 | -143.2 |
| Private sector | 353.3 | 388.3 | 398.6 | 424.5 | 465.3 | 516.8 |
| Loans and discounts | 353.2 | 356.8 | 362.9 | 383.6 | 432.7 | 500.2 |
| Investment | 0.1 | 31.4 | 35.7 | 40.9 | 32.6 | 16.6 |
| Unclassified assets (net) | -20.2 | -22.9 | -16.9 | -18.7 | 10.9 | 249.0 |
| Official capital and surplus | 80.4 | 90.7 | 96.0 | 96.0 | 102.6 | 110.1 |

## Table 22. Panama: Accounts of the Banking System 1/

(In millions of balboas: end of period)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Liabilities to domestic private sector** | **319.9** | **348.0** | **362.4** | **389.6** | **375.8** | **404.2** |
| Demand deposits | 7.3 | 6.3 | 7.4 | 11.0 | 12.2 | 17.4 |
| Time and savings deposits | 312.5 | 341.7 | 355.1 | 378.6 | 363.6 | 386.7 |
| Time deposits | 113.5 | 132.6 | 127.5 | 134.9 | 142.5 | 153.1 |
| Savings deposits | 199.1 | 209.2 | 227.5 | 243.7 | 221.2 | 233.6 |
| IV. Consolidated Banking System | | | | | | |
| **Net foreign assets** | **2,405.8** | **2,784.8** | **2,313.6** | **1,295.6** | **1,506.1** | **1,693.0** |
| Assets | 6,253.6 | 6,420.3 | 4,996.2 | 4,673.9 | 4,909.5 | 5,249.6 |
| Liabilities | 1,098.5 | 674.2 | 530.7 | 669.8 | 454.7 | 522.9 |
| Overseas operations (net) | -2,749.3 | -2,961.3 | -2,151.9 | -2,708.6 | -2,948.7 | -3,033.7 |
| Credit to nonresidents | 10,253.6 | 11,328.7 | 9,175.3 | 8,574.8 | 8,475.2 | 8,619.0 |
| Deposits from nonresidents | 9,535.8 | 10,616.5 | 7,518.9 | 7,714.0 | 7,235.9 | 7,126.7 |
| Other foreign liabilities | 3,467.2 | 3,673.5 | 3,808.3 | 3,569.4 | 4,188.1 | 4,526.0 |
| **Net domestic assets** | **5,104.4** | **5,880.2** | **7,423.0** | **9,179.2** | **10,000.5** | **10,743.3** |
| Public sector (net) | -857.7 | -1,007.4 | -1,112.3 | -1,180.9 | -1,216.0 | -1,421.8 |
| Credit | 1,112.3 | 1,094.0 | 942.0 | 914.9 | 767.4 | 801.3 |
| Deposits | -1,970.0 | -2,101.4 | -2,054.2 | -2,095.7 | -1,983.4 | -2,223.1 |
| Private sector | 7,008.8 | 7,948.1 | 9,843.6 | 11,536.6 | 12,330.3 | 13,259.3 |
| Official capital and surplus | 467.5 | 526.7 | 602.9 | 596.0 | 602.6 | 610.1 |
| Unclassified assets (net) | -460.1 | -484.9 | -716.3 | -835.1 | -652.2 | -322.4 |
| Other assets (net) | 472.8 | 528.4 | 668.9 | 734.6 | 944.9 | 1,162.4 |
| Other items (net) | 932.9 | 1,013.3 | 1,385.2 | 1,569.7 | 1,597.2 | 1,484.8 |
| USAID facility | -1.2 | -0.9 | -0.8 | 0.0 | 0.0 | 0.0 |
| **Net domestic reserves** | **-119.2** | **-48.9** | **10.8** | **254.5** | **141.0** | **-161.7** |
| Domestic currency | 12.5 | 17.1 | 14.7 | 21.7 | 15.6 | 4.0 |
| Net interbank deposits | -161.2 | -92.0 | -41.4 | 172.3 | 74.0 | -221.6 |
| Checks in clearing 4/ | 33.5 | 29.7 | 45.7 | 68.5 | 57.8 | 62.3 |
| Cashier's checks in circulation | -4.1 | -3.7 | -8.2 | -8.1 | -6.4 | -6.4 |
| **Liabilities to domestic private sector** | **7,510.2** | **8,665.0** | **9,736.7** | **10,474.7** | **11,506.6** | **12,436.3** |
| Monetary liabilities | 5,849.4 | 6,719.9 | 7,565.2 | 8,217.0 | 8,951.8 | 9,805.3 |
| Demand deposits | 833.2 | 995.2 | 1,131.4 | 1,165.3 | 1,165.9 | 1,295.6 |
| Time and savings deposits | 5,016.2 | 5,724.8 | 6,433.7 | 7,051.8 | 7,785.9 | 8,509.8 |
| Time deposits | 3,903.6 | 4,454.1 | 4,953.2 | 5,391.4 | 6,145.3 | 6,571.6 |
| Savings deposits | 1,112.6 | 1,270.7 | 1,480.5 | 1,660.4 | 1,640.6 | 1,938.2 |
| Private capital and surplus | 1,660.8 | 1,945.1 | 2,171.5 | 2,257.7 | 2,554.9 | 2,631.0 |

Sources: National Bank of Panama, Superintendency of Banks, and The Savings Bank.

1/ Excludes operations of international banks which are licensed to perform only offshore operations, but includes the offshore operations of banks licensed to perform both domestic and offshore operations.

2/ Not included in BNP accounts since 1987, but is included in the Central Government Accounts.

3/ Excluding the use of Fund credit.

4/ Includes bonds issued by the Central Government during 1988-89 in lieu of payment in cash to government employees of the 13th-month salary bonus.

Table 23. Panama: Banking System Credit to the Domestic Private Sector by Economic Activity

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas; end of period) | | | | | |
| **Total** | **6,474.0** | **7,212.0** | **8,784.0** | **10,242.0** | **10,802.0** | **11,595.0** |
| Commerce | 2,568.0 | 2,896.0 | 3,426.0 | 3,746.0 | 3,817.0 | 3,861.0 |
| Housing | 1,649.0 | 1,844.0 | 2,124.0 | 2,432.0 | 2,756.0 | 2,889.0 |
| Other construction | 297.0 | 278.0 | 230.0 | 227.0 | 257.0 | 323.0 |
| Industry | 371.0 | 415.0 | 463.0 | 470.0 | 508.0 | 684.0 |
| Personal consumption | 948.0 | 1,097.0 | 1,541.0 | 2,099.0 | 2,305.0 | 2,390.0 |
| Financial and insurance enterprises | 300.0 | 362.0 | 687.0 | 950.0 | 808.0 | 1,102.0 |
| Agriculture | 137.0 | 129.0 | 129.0 | 119.0 | 148.0 | 144.0 |
| Livestock | 155.0 | 150.0 | 139.0 | 154.0 | 157.0 | 164.0 |
| Fishing | 28.0 | 27.0 | 32.0 | 34.0 | 34.0 | 36.0 |
| Other | 21.0 | 14.0 | 13.0 | 11.0 | 12.0 | 2.0 |
| | (12-month percentage change) | | | | | |
| **Total** | **5.8** | **11.4** | **21.8** | **16.6** | **6.3** | **7.3** |
| Commerce | -3.9 | 12.8 | 18.3 | 9.3 | 2.8 | 1.2 |
| Housing | 10.4 | 11.8 | 15.2 | 14.5 | 13.3 | 4.8 |
| Other construction | 58.8 | -6.4 | -17.3 | -1.3 | 13.2 | 25.7 |
| Industry | 1.1 | 11.9 | 11.6 | 1.5 | 1.2 | 34.6 |
| Personal consumption | 11.7 | 15.7 | 40.5 | 36.2 | 14.1 | 3.7 |
| Financial and insurance enterprises | 26.6 | 20.7 | 89.8 | 38.3 | -14.9 | 36.4 |
| Agriculture | 5.4 | -5.8 | 0.0 | -7.8 | 24.4 | -2.7 |
| Livestock | -3.7 | -3.2 | -7.3 | 10.8 | 1.9 | 4.5 |
| Fishing | 7.7 | -3.6 | 18.5 | 6.3 | 0.0 | 5.9 |
| | (In percent of total credit) | | | | | |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Commerce | 39.7 | 40.2 | 39.0 | 36.6 | 35.3 | 33.3 |
| Housing | 25.5 | 25.6 | 24.2 | 23.7 | 25.5 | 24.9 |
| Other construction | 4.6 | 3.9 | 2.6 | 2.2 | 2.4 | 2.8 |
| Industry | 5.7 | 5.8 | 5.3 | 4.6 | 4.7 | 5.9 |
| Personal consumption | 14.6 | 15.2 | 17.5 | 20.5 | 21.3 | 20.6 |
| Financial and insurance enterprises | 4.6 | 5.0 | 7.8 | 9.3 | 7.5 | 9.5 |
| Agriculture | 2.1 | 1.8 | 1.5 | 1.2 | 1.4 | 1.2 |
| Livestock | 2.4 | 2.1 | 1.6 | 1.5 | 1.5 | 1.4 |
| Fishing | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |

Source: Superintendent of Banks.

## Table 24. Panama: Offshore Operations of Private Banks 1/

(In billions of U.S. dollars, end of period)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Foreign assets** | **21.6** | **22.9** | **20.9** | **19.7** | **19.8** | **19.7** |
| Foreign reserves | 7.3 | 7.7 | 6.1 | 6.5 | 7.3 | 6.6 |
| General license banks | 5.2 | 5.3 | 4.0 | 3.8 | 4.1 | 4.1 |
| Offshore banks 2/ | 2.0 | 2.4 | 2.1 | 2.7 | 3.2 | 2.5 |
| Credit to nonresidents | 14.3 | 15.2 | 14.8 | 13.2 | 12.5 | 13.1 |
| General license banks | 10.3 | 11.3 | 9.2 | 8.6 | 8.5 | 8.6 |
| Offshore banks | 4.0 | 3.9 | 5.6 | 4.7 | 4.0 | 4.5 |
| **Foreign liabilities** | **19.9** | **20.9** | **19.5** | **18.9** | **18.5** | **18.7** |
| Short-term liabilities | 1.1 | 0.7 | 0.7 | 0.5 | 0.4 | 0.4 |
| General license banks | 1.0 | 0.5 | 0.4 | 0.6 | 0.4 | 0.4 |
| Offshore banks | 0.1 | 0.2 | 0.3 | 0.0 | 0.0 | 0.0 |
| Deposits from nonresidents | 15.3 | 16.5 | 14.7 | 14.1 | 13.0 | 12.8 |
| General license banks | 9.5 | 10.6 | 7.5 | 7.7 | 7.2 | 7.1 |
| Banks | 6.3 | 7.5 | 5.5 | 5.6 | 5.0 | 5.1 |
| Nonbanks | 3.3 | 3.1 | 2.0 | 2.1 | 2.2 | 2.1 |
| Offshore banks | 5.8 | 5.9 | 7.1 | 6.4 | 5.8 | 5.7 |
| Other liabilities | 3.5 | 3.7 | 4.2 | 4.3 | 5.1 | 5.4 |
| General license banks | 3.5 | 3.7 | 3.8 | 3.6 | 4.2 | 4.5 |
| Offshore banks | 0.0 | 0.1 | 0.4 | 0.8 | 0.9 | 0.9 |
| **Capital and reserves** | **0.3** | **0.4** | **0.3** | **0.3** | **0.4** | **0.4** |

Source: Superintendency of Banks.

1/ Includes offshore operations of international license banks.

2/ Refers to international license banks.

Table 25. Panama: Interest Rate Structure

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In percent) | | | | | |
| **Lending rates (less than one year)** | | | | | | |
| Commercial | 10.5 | 10.2 | 9.9 | 9.9 | 10.0 | 10.2 |
| Industrial | 10.1 | 9.3 | 9.0 | 8.6 | 9.1 | 9.5 |
| Personal | 12.2 | 12.6 | 12.9 | 13.3 | 13.2 | 13.1 |
| **Domestic deposit rate (six-month)** | **6.4** | **6.2** | **6.1** | **6.2** | **6.5** | **5.5** |
| **U.S. prime rate (six-month)** | **8.5** | **8.5** | **8.3** | **7.9** | **9.2** | **6.8** |
| **LIBOR (six-month)** | **5.6** | **5.9** | **5.5** | **5.3** | **6.6** | **3.1** |
| **Difference between the deposit rate and LIBOR** | **0.8** | **0.3** | **0.6** | **0.8** | **-0.2** | **2.4** |

Source: Superintendent of Banks.

Table 26. Panama: Public Sector Banks—Operating Revenue and Expenditure

(In millions of balboas)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| I. National Bank of Panama. Operating Revenue and Expenditure | | | | | | |
| **Operating profits or losses (-)** | **57.7** | **44.8** | **77.6** | **105.1** | **121.7** | **99.5** |
| **Operating revenue** | **88.1** | **76.7** | **115.8** | **144.8** | **161.4** | **139.6** |
| **Net interest** | **77.7** | **65.3** | **89.9** | **130.4** | **143.7** | **126.8** |
| Interest receipts (cash) | 142.4 | 144.2 | 173.2 | 222.6 | 251.7 | 218.9 |
| Collected | 143.7 | 148.5 | 177.1 | 222.6 | 251.7 | 218.9 |
| Not yet collected 2/ | -1.3 | -4.4 | -3.9 | 0.0 | 0.0 | 0.0 |
| Interest payments accrued | -64.7 | -78.9 | -83.3 | -92.2 | -108.1 | -92.0 |
| **Non interest income** | **10.3** | **11.4** | **25.9** | **14.4** | **17.8** | **12.8** |
| **Operating expenditure** | **30.4** | **32.0** | **38.2** | **39.7** | **39.7** | **40.1** |
| Wages and salaries | 19.6 | 20.4 | 22.2 | 22.1 | 22.8 | 24.8 |
| Goods and services | 10.2 | 11.0 | 13.7 | 13.3 | 13.3 | 15.3 |
| Other | 0.6 | 0.6 | 2.2 | 4.3 | 3.6 | 0.0 |
| II. Savings Bank | | | | | | |
| **Operating profits or losses (-)** | **4.6** | **3.3** | **3.2** | **2.8** | **9.8** | **13.4** |
| **Operating revenue** | **22.1** | **21.9** | **25.8** | **24.8** | **31.5** | **37.7** |
| **Net interest** | **16.3** | **16.9** | **22.3** | **21.0** | **23.4** | **26.0** |
| **Interest receipts (cash)** | **43.4** | **47.9** | **53.2** | **52.8** | **60.5** | **68.1** |
| Collected | 45.7 | 50.3 | 53.2 | 52.8 | 60.5 | 68.1 |
| Loans | 36.3 | 36.2 | 37.4 | 36.8 | 40.5 | 46.1 |
| Fixed deposits | 9.3 | 12.3 | 12.7 | 12.3 | 15.2 | 13.3 |
| Investments | 0.1 | 1.8 | 3.1 | 3.7 | 4.8 | 8.7 |
| Not yet collected 1/ | -2.4 | -2.3 | | 0.0 | 0.0 | 0.0 |
| Interest payments accrued | -27.1 | -31.1 | -30.9 | -31.8 | -37.0 | -42.1 |
| **Non interest income** | **5.8** | **5.1** | **3.4** | **3.8** | **8.1** | **11.7** |
| **Operating expenditure (cash)** | **17.5** | **18.6** | **22.6** | **22.0** | **21.7** | **24.2** |
| **Expenditures** | **21.0** | **20.7** | **24.7** | **24.5** | **24.4** | **30.2** |
| *Of which:* | | | | | | |
| Wages and salaries | 11.4 | 11.8 | 12.6 | 13.2 | 13.5 | 14.6 |
| Goods and services | | | | | | |
| Other | | | | | | |
| Depreciation | -1.5 | -1.4 | -1.4 | -1.6 | -2.1 | -2.9 |
| Provisions for bad loans | -2.0 | -0.7 | -0.8 | -0.9 | -0.5 | -3.0 |

Table 26. Panama: Public Sector Banks—Operating Revenue and Expenditure

(In millions of balboas)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | III. National Mortgage Bank | | | | | |
| **Operating profits or losses (-)** | **4.2** | **3.2** | **7.9** | **8.4** | **4.5** | **4.4** |
| **Operating revenue** | **14.2** | **13.8** | **13.6** | **18.5** | **14.1** | **13.6** |
| **Net interest** | **7.9** | **7.9** | **7.8** | **7.8** | **8.3** | **7.4** |
| Interest receipts (cash) | 15.6 | 14.8 | 14.3 | 13.9 | 14.0 | 12.6 |
| Loans | 14.3 | 13.8 | 13.5 | 13.3 | 13.3 | 12.2 |
| Fixed deposits | 0.9 | 0.9 | 0.8 | 0.5 | 0.7 | 0.4 |
| Investments | 0.3 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Interest payments cash | 7.7 | 6.8 | 6.5 | 6.1 | 5.7 | 5.2 |
| **Non interest income** | **6.3** | **5.9** | **5.8** | **10.6** | **5.8** | **6.2** |
| **Operating expenditure (cash)** | **9.9** | **10.6** | **5.7** | **10.1** | **9.7** | **9.3** |
| Wages and salaries | 3.4 | 3.9 | 1.9 | 3.8 | 4.2 | 4.1 |
| Goods and services | 6.6 | 6.7 | 3.7 | 6.2 | 5.4 | 5.1 |
| Other | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| **Depositor insurance payments** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| | IV. Agricultural Development Bank. | | | | | |
| **Operating profits or losses (-)** | **-3.0** | **-3.8** | **-0.9** | **-0.8** | **-0.2** | **1.8** |
| **Operating revenue** | **2.1** | **1.4** | **4.3** | **5.0** | **6.6** | **8.6** |
| **Net interest** | **1.8** | **0.7** | **3.8** | **4.4** | **6.0** | **7.6** |
| **Interest receipts (cash)--loans** | **5.9** | **4.8** | **6.9** | **7.4** | **8.3** | **9.7** |
| Interest payments accrued | 4.1 | 4.1 | 3.1 | 3.0 | 2.3 | 2.2 |
| Interest payments cash | 3.8 | 3.6 | 3.3 | .. | .. | .. |
| **Non interest income** | **0.3** | **0.7** | **0.5** | **0.6** | **0.6** | **1.1** |
| **Operating expenditure (cash)** | **5.1** | **5.2** | **5.2** | **5.8** | **6.8** | **6.8** |
| Wages and salaries | 3.6 | 3.7 | 3.8 | 4.1 | 4.5 | 4.6 |
| Goods and services | 0.9 | 0.9 | 0.8 | 1.0 | 1.5 | 1.4 |
| Other | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 | 0.7 |

Sources: National Bank of Panama: Savings Bank; National Mortgage Bank; and the Agricultural Development Bank.

1/ Difference of interest receivable at the beginning and at the end of the period
2/ Includes exchange profit of B 0.5 million in 1996.
Adjustment for settlement of IMF operations between the BNP and the central government.

Table 27. Panama: Public Sector Banks—Portfolio in Arrears

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 1/ |
|---|---|---|---|---|---|---|---|
| | I. National Bank of Panama | | | | | | |
| **Total private sector portfolio 2/** | **276.9** | **268.6** | **260.6** | **327.6** | **533.9** | **689.3** | **817.5** |
| Commerce | 39.1 | 36.8 | 43.4 | 45.5 | 58.2 | 68.4 | 90.1 |
| Agriculture and forestry | 78.0 | 79.6 | 81.7 | 83.9 | 104.8 | 119.9 | 132.8 |
| Personal loans | 99.5 | 92.6 | 75.9 | 184.7 | 339.6 | 450.7 | 506.8 |
| Others | 60.2 | 59.6 | 59.6 | 13.4 | 31.4 | 50.3 | 87.9 |
| **Total arrears** | **10.7** | **11.5** | **11.1** | **10.7** | **10.6** | **80.3** | **111.0** |
| Commerce | 4.3 | 4.1 | 3.3 | 2.6 | 1.7 | .. | 17.0 |
| Agriculture and forestry | 3.7 | 4.4 | 4.7 | 5.0 | 5.0 | .. | 20.6 |
| Personal loans | 1.0 | 0.9 | 1.1 | 1.7 | 2.8 | .. | 61.1 |
| Others | 1.7 | 2.1 | 2.0 | 1.4 | 1.2 | .. | 12.2 |
| **Share of arrears in total portfolio** | **3.9** | **4.3** | **4.3** | **3.3** | **2.0** | **11.6** | **13.6** |
| Commerce | 10.9 | 11.1 | 7.6 | 5.6 | 2.9 | .. | 18.9 |
| Agriculture and forestry | 4.8 | 5.5 | 5.8 | 6.0 | 4.8 | .. | 15.5 |
| Personal loans | 1.0 | 1.0 | 1.5 | 0.9 | 0.8 | .. | 12.1 |
| Others | 2.8 | 3.6 | 3.4 | 10.8 | 3.7 | .. | 13.8 |
| **Loans with payments overdue** | **10.7** | **11.5** | **11.1** | **10.7** | **10.6** | **80.3** | **111.0** |
| Between 30 and 90 days | 3.8 | 5.1 | 4.8 | 4.2 | 5.9 | 44.5 | 61.7 |
| Over 90 days | 6.9 | 6.4 | 6.4 | 6.4 | 4.7 | 35.8 | 49.3 |
| **Percent of total with payments overdue** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Between 30 and 90 days | 35.2 | 44.6 | 42.8 | 39.7 | 56.0 | 55.4 | 55.6 |
| Over 90 days | 64.8 | 55.4 | 57.2 | 60.3 | 44.0 | 44.6 | 44.4 |
| | II. Savings Bank | | | | | | |
| **Total portfolio** | **336.9** | **351.8** | **355.0** | **362.9** | **383.6** | **432.6** | **500.2** |
| Mortages | 265.4 | 275.1 | 285.8 | 289.4 | 297.2 | 301.3 | 321.9 |
| Personal loans | 60.2 | 62.1 | 55.0 | 60.8 | 74.3 | 94.8 | 81.5 |
| Prendarios | 11.4 | 14.6 | 14.2 | 12.6 | 12.1 | 36.5 | 96.7 |
| **Loans overdue** | **61.6** | **22.8** | **20.1** | **64.8** | **64.5** | **62.2** | **68.4** |
| Mortages | 49.8 | 13.9 | 11.4 | 54.1 | 53.9 | .. | .. |
| Personal loans | 11.1 | 6.4 | 6.3 | 8.6 | 8.1 | .. | .. |
| Other | 0.7 | 2.5 | 2.4 | 2.0 | 2.5 | .. | .. |
| **Share of arrears in total portfolio** | **18.3** | **6.5** | **5.7** | **17.8** | **16.8** | **14.4** | **13.7** |
| Share of arrears in their individual portfolios | | | | | | | |
| Mortages | 18.8 | 5.1 | 4.0 | 18.7 | 18.1 | .. | .. |
| Personal loans | 18.5 | 10.3 | 11.5 | 14.2 | 10.9 | .. | .. |
| Other | 6.0 | 17.1 | 16.9 | 16.2 | 20.8 | .. | .. |

## Table 27. Panama: Public Sector Banks—Portfolio in Arrears

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 1/ |
|---|---|---|---|---|---|---|---|
| | III. National Housing Bank 3/ | | | | | | |
| **Total portfolio** | **174.4** | **188.5** | **195.4** | **204.7** | **233.9** | **193.4** | **184.7** |
| **Total arrears** | **42.2** | **45.6** | **8.1** | **16.0** | **38.6** | **44.1** | **54.1** |
| **Share of arrears in total portfolio** | **24.2** | **24.2** | **4.1** | **7.8** | **16.5** | **22.8** | **29.3** |
| | IV. Agricultural Development Bank. 4/ | | | | | | |
| **Total portfolio** | **76.6** | **74.2** | **76.1** | **83.9** | **85.3** | **90.9** | **100.5** |
| **Loans overdue** | **20.4** | **20.7** | **21.2** | **20.6** | **27.4** | **23.6** | **28.4** |
| **Loans overdue as a share of total portfolio** | **26.7** | **27.9** | **27.9** | **24.5** | **32.1** | **26.0** | **28.3** |
| **Loans with payments overdue** | **20.4** | **20.7** | **21.2** | **20.6** | **27.4** | **23.6** | **28.4** |
| Between 30 to 90 days | 0.7 | 1.0 | 1.1 | 1.2 | 4.6 | 2.9 | 3.1 |
| More than 90 days | 19.7 | 19.7 | 20.2 | 19.4 | 22.8 | 20.8 | 25.4 |
| **Percent of total with payments overdue** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| Between 30 to 90 days | 3.4 | 4.9 | 5.0 | 5.8 | 16.9 | 12.2 | 10.8 |
| More than 90 days | 96.6 | 95.1 | 95.0 | 94.2 | 83.1 | 87.8 | 89.2 |

Sources: National Bank of Panama; The Savings Bank; The National Mortgage Bank; and The Agricultural Development Bank.

1/ In 2001 the Superindencia de Bancos introduced a new methodology to determine arrears on commercial bank loans. In previous years only the onstanding installments were recorded as arrears on loans on which scheduled payments had not been made for between 30 and 90 days. Over ninety days some banks continued to define as arreas only the outstanding installments, while others included the entire balance outstanding. By end 2001 all banks were required to register the entire outstanding balance of a loan as in arrears, once payment was more than 30 days overdue. This has led to a significant increase in arrears in the accounts of the Banco National de Panama. End 2000 dat has been adjusted to reflect the new standard.In addition, the BNP has also increased its provisioning substantially.

2/ From 1996 refers to loans overdue by more than 91 days.

3/ This portfolio includes bad loans related to projects financed through the Ministry of Housing aid at alleviating the problem of housing for lower income families.

4/ From 1993 the portfolio excludes bad loans.

# Table 28. Panama: Summary of Balance of Payments

(In millions of U.S. dollars unless otherwise specified))

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel 2001 |
|---|---|---|---|---|---|---|
| **Current account** | **-301.9** | **-588.4** | **-1202.2** | **-1,377.5** | **-933.1** | **-499.7** |
| Trade balance | -644.1 | -685.2 | -1361.6 | -1,416.5 | -1,189.8 | -825.9 |
| Exports, f.o.b. | 740.6 | 843.9 | 862.5 | 864.6 | 1,045.4 | 1,082.0 |
| Non-petroleum exports | 573.2 | 682.7 | 735.3 | 712.3 | 835.3 | 890.5 |
| Petroleum exports | 167.4 | 161.2 | 127.2 | 152.3 | 210.1 | 191.5 |
| Imports, f.o.b. | -2,248.9 | -2462.2 | -2751.9 | -2,858.4 | -2,750.8 | -2,402.1 |
| Non-petroleum imports | -1,854.0 | -2090.6 | -2475.5 | -2,505.1 | -2,303.8 | -1,976.1 |
| Petroleum imports | -394.9 | -371.6 | -276.4 | -353.3 | -447.0 | -426.0 |
| Colon Free Zone, net | 864.2 | 933.1 | 527.8 | 577.3 | 515.6 | 494.2 |
| Services, net | 524.6 | 357.8 | 524.9 | 615.4 | 691.8 | 672.8 |
| Travel | 219.6 | 210.4 | 202.6 | 202.7 | 266.6 | 309.9 |
| Transportation | 100.4 | 47.8 | 226.1 | 294.9 | 396.6 | 347.7 |
| Other services, net | 204.6 | 99.6 | 96.2 | 117.8 | 28.6 | 15.2 |
| *Of which* : U. S. Defense Department | 177.7 | 180.9 | 109.1 | 74.9 | 0.0 | 0.0 |
| Income, net | -317.1 | -411.6 | -524.5 | -740.6 | -612.0 | -545.3 |
| *Of which:* | | | | | | |
| Nonfinancial public sector interest payments | -243.3 | -279.7 | -306.3 | -364.5 | -360.8 | -419.7 |
| Current transfers, net | 134.7 | 150.6 | 159.0 | 164.2 | 176.9 | 198.7 |
| *Of which* : Official, net | 48.8 | 61.5 | 68.9 | 70.6 | 64.2 | 80.7 |
| **Capital and financial account** | **463.2** | **432.2** | **952.1** | **1,390.4** | **566.3** | **990.3** |
| Capital account (Public sector grants) | 2.5 | 72.7 | 50.9 | 3.0 | 1.7 | 1.6 |
| Financial account | **460.7** | 359.5 | 901.2 | 1,387.4 | 564.6 | 988.7 |
| Public sector | -147.5 | -564.4 | -470.4 | -63.1 | 111.0 | 323.5 |
| Nonfinancial public sector | -147.5 | -562.8 | -464.4 | -57.1 | 116.9 | 330.5 |
| Disbursements | 186.4 | 1486.4 | 703.1 | 630.0 | 484.5 | 1,210.8 |
| Amortization | -236.0 | -1512.3 | -617.6 | -407.5 | -391.3 | -535.7 |
| Other | -97.9 | -536.8 | -549.9 | -279.6 | 23.7 | -344.6 |
| National Bank of Panama | 0.0 | -1.6 | -6.0 | -6.0 | -5.9 | -7.0 |
| Private sector | 608.2 | 923.9 | 1371.6 | 1,450.5 | 453.6 | 665.2 |
| Direct investment | 428.1 | 1253.5 | 1158.5 | 516.9 | 922.9 | 451.0 |
| Portfolio investment | 545.0 | -1045.4 | 434.1 | -538.1 | -105.3 | -773.9 |
| Other private investment | -364.9 | 715.8 | -221.0 | 1,471.7 | -364.0 | 988.1 |
| **Errors and Omissions** | **138.0** | **298.9** | **56.7** | **-103.7** | **275.6** | **-74.7** |
| **Overall Balance** | **299.3** | **142.7** | **-193.4** | **-90.8** | **-91.2** | **415.9** |
| **Financing** | **-299.3** | **-142.7** | **193.4** | **90.8** | **91.2** | **-415.9** |
| Net foreign assets of the National Bank of Panama | -243.4 | -130.2 | 176.0 | 81.8 | 117.4 | -409.0 |
| Net use of Fund credit | 24.0 | 19.7 | 28.2 | -23.2 | -51.8 | -33.7 |
| Purchase | 75.9 | 45.8 | 41.5 | 0.0 | 0.0 | 0.0 |
| Repurchase | -51.9 | -26.1 | -13.3 | -23.2 | -51.8 | -33.7 |
| Rescheduling | 3,342.7 | 35.6 | 19.1 | 32.2 | 25.6 | 26.8 |
| Change in arrears | -3,422.6 | -67.8 | -29.9 | 0.0 | 0.0 | 0.0 |
| **Memorandum items:** | | | | | | |
| Current account/GDP (In percent) | **-3.7** | **-6.8** | **-13.1** | **-14.3** | **-9.3** | **-4.9** |

Sources: Panamanian authorities; and Fund staff estimates.

# Table 29. Panama: Nontraditional Exports and Issue of Tax Credit Certificates

(In millions of balboas)

| | 1996 | 1997 | 1998 1/ | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Nontraditional exports, f.o.b. 2/** | **132.9** | **119.4** | **175.1** | **197.4** | **223.0** | **228.0** |
| Food | 4.7 | 0.3 | 29.6 | 1.9 | 5.9 | 0.8 |
| Agricultural products | 40.9 | 42.4 | 48.5 | 62.3 | 62.9 | 81.9 |
| Beverages and tobacco | 2.7 | 4.8 | 8.8 | 12.4 | 31.5 | 18.1 |
| Manufactures | 84.6 | 71.9 | 88.2 | 120.8 | 121.4 | 127.1 |
| **Issues of tax credit certificates 2/** | **19.5** | **17.8** | **25.3** | **34.8** | **42.1** | **32.0** |
| Food | 0.3 | 0.0 | 0.8 | 0.2 | 1.08 | 0.1 |
| Agricultural Products | 14.3 | 12.5 | 16.8 | 22.3 | 13.98 | 13.0 |
| Beverages and tobacco | 0.3 | 0.5 | 1.4 | 2.2 | 6.15 | 2.7 |
| Manufactures | 4.6 | 4.8 | 6.3 | 10.1 | 20.89 | 16.2 |
| **Ratio of tax credit certificates to nontraditional exports (in percent)** | **14.7** | **14.9** | **14.4** | **17.6** | **18.9** | **14.1** |

Sources: Panama Trade Development Institute (IPCE) until 1997; Ministry of Commerce and Industry in 1998; and Fund staff estimates.

1/ The classification of tax credit certificates for nontraditional exports changed in 1998.
2/ Excludes nontraditional exports not benefiting from tax credit certificates.

## Table 30. Panama: Direction of Trade 1/

(In percent)

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel. 2001 |
|---|---|---|---|---|---|---|
| **Exports, f.o.b.** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **Western Hemisphere** | **73.3** | **73.6** | **68.1** | **70.8** | **70.3** | **74.3** |
| United States | 47.5 | 45.2 | 40.0 | 42.2 | 43.3 | 48.0 |
| Central America and the Caribbean | 19.3 | 21.2 | 20.6 | 21.6 | 20.8 | 19.9 |
| South America | 4.1 | 3.9 | 3.7 | 3.4 | 2.7 | 4.0 |
| Other | 2.4 | 3.3 | 3.8 | 3.6 | 3.5 | 2.4 |
| **Europe** | **23.0** | **22.6** | **27.0** | **23.0** | **22.9** | **20.2** |
| Belgium and Luxembourg | 4.2 | 5.4 | 4.3 | 4.4 | 5.2 | 4.5 |
| Germany | 4.5 | 3.1 | 3.4 | 10.7 | 1.7 | 3.2 |
| Italy | 1.0 | 0.7 | 2.7 | 4.1 | 3.3 | 2.7 |
| Sweden | 10.2 | 8.4 | 7.2 | 1.1 | 8.5 | 3.7 |
| Other | 3.1 | 5.0 | 9.4 | 2.7 | 4.2 | 6.1 |
| **Other countries** | **3.7** | **3.8** | **4.9** | **6.2** | **6.8** | **5.5** |
| *Of which:* | | | | | | |
| Exports through the Colón Free Zone | 2.0 | 2.0 | 1.9 | 1.9 | 1.3 | 1.1 |
| **Imports, c.i.f. 2/** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **Western Hemisphere** | **65.7** | **64.0** | **62.2** | **61.8** | **65.6** | **66.4** |
| United States | 37.4 | 36.7 | 39.5 | 35.8 | 32.7 | 32.5 |
| Mexico | 3.8 | 4.9 | 4.8 | 4.4 | 3.9 | 4.0 |
| Central America and the Caribbean | 7.1 | 7.4 | 7.5 | 8.4 | 9.0 | 8.4 |
| Costa Rica | 2.7 | 2.9 | 3.0 | 3.3 | 3.5 | 3.5 |
| Trinidad and Tobago | 0.3 | 0.5 | 0.2 | 1.2 | 0.1 | 0.1 |
| Other | 4.1 | 4.0 | 4.3 | 3.9 | 5.4 | 4.8 |
| South America | 17.4 | 15.0 | 10.4 | 13.2 | 20.0 | 21.5 |
| Venezuela | 7.2 | 3.9 | 3.5 | 2.9 | 6.6 | 5.2 |
| Ecuador | 3.7 | 5.6 | 2.9 | 5.3 | 7.2 | 8.0 |
| Brazil | 1.1 | 1.0 | 0.8 | 1.0 | 1.1 | 1.1 |
| Other | 5.4 | 4.5 | 3.2 | 4.0 | 5.1 | 7.2 |
| **Europe** | **8.3** | **8.8** | **8.3** | **9.7** | **9.2** | **8.9** |
| Germany | 1.7 | 1.3 | 1.3 | 1.4 | 1.6 | 1.7 |
| France | 0.5 | 1.5 | 0.9 | 0.7 | 0.5 | 1.5 |
| Spain | 1.0 | 1.3 | 1.3 | 1.5 | 1.8 | 2.1 |
| Italy | 0.8 | 0.7 | 0.6 | 0.7 | 0.7 | 0.7 |
| Netherlands | 0.9 | 0.6 | 0.7 | 0.6 | 0.6 | 0.5 |
| United Kingdom | 0.6 | 0.8 | 1.2 | 1.0 | 0.9 | 0.7 |
| Other | 2.8 | 2.6 | 2.3 | 3.8 | 3.1 | 1.7 |
| **Other countries** | **26.0** | **27.2** | **29.5** | **28.5** | **25.2** | **24.7** |
| *Of which* : | | | | | | |
| Imports from the Colón Free Zone | 13.6 | 13.9 | 12.8 | 12.5 | 12.0 | 11.9 |

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

1/ Based on Customs data.
2/ Excludes sales of bunker oil.

## Table 31. Panama: Operations of the Colón Free Zone

(In millions of balboas)

| | 1996 | 1997 | 1998 | 1999 | 2000 | Prel 2001 |
|---|---|---|---|---|---|---|
| **Imports 1/** | **4,623.7** | **5,389.6** | **6,812.1** | **5,277.8** | **4,630.9** | **4,607.0** |
| Textiles and clothing | 973.0 | 1,200.0 | 1,080.0 | 910.0 | 1,043.6 | 1,110.7 |
| Beverages and tobacco | 176.1 | 207.8 | 150.3 | 119.4 | 136.9 | 112.8 |
| Chemical products | 496.1 | 577.7 | 635.3 | 641.0 | 735.1 | 726.3 |
| Instruments | 317.6 | 340.9 | 304.4 | 278.8 | 319.7 | 318.5 |
| Machinery and transport goods | 1,502.4 | 1,654.8 | 1,600.2 | 1,239.8 | 1,421.8 | 1,414.5 |
| Other | 1,158.5 | 1,408.4 | 3,041.9 | 2,088.8 | 973.8 | 924.2 |
| **Exports, f.o.b. 1/** | **5,491.7** | **6,276.0** | **5,985.2** | **4,795.7** | **5,300.9** | **5,386.0** |
| Textiles and clothing | 1,177.2 | 1,384.2 | 1,219.6 | 1,069.3 | 1,181.9 | 1,167.2 |
| Beverages and tobacco | 183.1 | 218.0 | 188.7 | 155.7 | 172.1 | 143.4 |
| Chemical products | 675.6 | 770.5 | 874.1 | 866.8 | 958.2 | 976.8 |
| Instruments | 388.2 | 373.8 | 439.5 | 361.2 | 399.3 | 405.7 |
| Machinery and transport goods | 1,803.4 | 1,960.2 | 0.0 | 0.0 | 1,655.7 | 1,682.3 |
| Other | 1,264.2 | 1,569.3 | 3,263.3 | 2,342.7 | 933.7 | 1,010.6 |
| **Memorandum item:** | | | | | | |
| Number of Panamanians employed in Colón Free Zone 2/ | 12,152.0 | 13,639.0 | 14,200.0 | 14,400.0 | 14,575.0 | 15,300.0 |

Sources: Office of the Comptroller General; Administration of the Colón Free Zone; and Fund staff estimates.

1/ Excludes balance of payments adjustments.
2/ Average for the year.

Table 32. Panama: Canal Statistics

| Fiscal year Ended Sep. 30 | Total Traffic: Number of Transits (In thousands) | Total Traffic: Tolls (In millions of balboas) | Total Traffic: Cargo Tonnage (In millions of long tons) | Total Traffic: Average Toll (balboa per long ton) | Traffic Assessed Toll on Net Tonnage Basis 1/: Number of Transits (In thousands) | Traffic Assessed Toll on Net Tonnage Basis 1/: Net Tonnage 2/ (In millions of p.c. net tons) | Traffic Assessed Toll on Net Tonnage Basis 1/: Average Tonnage per transit (In thousands of p.c. net tons) |
|---|---|---|---|---|---|---|---|
| **Total traffic** | | | | | | | |
| 1996 | 15.2 | 486.7 | 198.5 | 2.5 | 14.9 | 228.3 | 15.4 |
| 1997 | 14.8 | 493.6 | 189.9 | 2.6 | 14.5 | 217.5 | 15.0 |
| 1998 | 14.2 | 545.7 | 192.2 | 2.8 | 14.1 | 222.6 | 15.8 |
| 1999 | 14.3 | 568.9 | 196.0 | 2.9 | 14.1 | 227.6 | 16.2 |
| 2000 | 13.7 | 574.2 | 193.7 | 3.0 | 13.5 | 229.9 | 17.1 |
| 2001 | 13.5 | 579.5 | 193.2 | 3.0 | 13.3 | 231.2 | 17.4 |
| *Of which:* Commercial Ocean traffic 3/ | | | | | | | |
| 1996 | 13.7 | 486.5 | 198.5 | 2.5 | 13.6 | 228.2 | 16.8 |
| 1997 | 13.2 | 493.4 | 189.9 | 2.6 | 13.0 | 217.5 | 16.7 |
| 1998 | 13.0 | 545.4 | 192.2 | 2.8 | 12.9 | 222.5 | 17.2 |
| 1999 | 13.1 | 568.1 | 196.0 | 2.9 | 13.0 | 227.4 | 17.5 |
| 2000 | 12.3 | 573.0 | 193.7 | 3.0 | 13.7 | 229.5 | 16.8 |
| 2001 | 12.2 | 578.4 | 193.1 | 3.0 | 12.1 | 230.7 | 19.1 |

Sources: Panama Canal Commission; and Fund staff estimates.

1/ Traffic tolls not assessed on net tonnage basis are assessed on displacement-tonnage basis.
2/ One Panama Canal (p.c) net ton equals 100 cubic feet space. Noncommercial ocean traffic is mainly U.S. Government traffic.
3/ Ocean traffic includes ships of 300 p.c. net tons and over.

Table 33. Panama: Composition of Merchandise Exports

(In millions of balboas, unless otherwise specified)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| **Merchandise exports, f.o.b. 1/** | **740.6** | **843.9** | **862.5** | **864.6** | **1,045.4** | **1,082.0** |
| **Petroleum** | **167.4** | **161.2** | **127.2** | **152.3** | **210.1** | **191.5** |
| **Nonpetroleum exports, f.o.b. 2/** | **573.2** | **682.7** | **735.3** | **712.3** | **835.3** | **890.5** |
| **Bananas** | | | | | | |
| Value | 184.0 | 179.8 | 138.7 | 187.3 | 148.3 | 122.2 |
| Volume (millions of boxes) | 34.8 | 33.5 | 25.5 | 34.3 | 29.2 | 23.4 |
| Unit value per box | 5.3 | 5.4 | 5.4 | 5.5 | 5.1 | 5.2 |
| **Sugar** | | | | | | |
| Value | 22.6 | 28.7 | 25.6 | 14.5 | 19.9 | 13.9 |
| Volume (thousands of metric tons) | 46.6 | 62.4 | 66.2 | 33.6 | 69.0 | 36.1 |
| Unit value per pound | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 |
| **Shrimp** | | | | | | |
| Value | 74.6 | 95.7 | 136.9 | 69.0 | 59.4 | 70.1 |
| Volume (thousands of metric tons) | 11.0 | 12.7 | 14.1 | 7.6 | 5.9 | 6.6 |
| Unit value per pound | 3.1 | 3.4 | 4.4 | 4.1 | 4.6 | 4.8 |
| **Coffee** | | | | | | |
| Value | 18.8 | 22.4 | 23.9 | 20.0 | 16.0 | 11.1 |
| Volume (thousands of metric tons) | 8.4 | 7.5 | 8.7 | 8.6 | 7.4 | 7.1 |
| Unit value per pound | 1.0 | 1.4 | 1.2 | 1.1 | 1.0 | 0.7 |
| **Fishmeal** | | | | | | |
| Value | 2.2 | 4.5 | 6.6 | 5.0 | 8.2 | 7.6 |
| Volume (thousands of metric tons) | 7.1 | 11.1 | 14.3 | 18.1 | 29.1 | 23.6 |
| Unit value per pound | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| **Other seafood** | | | | | | |
| Value | 22.1 | 36.4 | 56.4 | 61.6 | 81.4 | 93.2 |
| Volume (thousands of metric tons) | 7.2 | 13.4 | 19.9 | 23.1 | 28.8 | 31.9 |
| Unit value per pound | 1.4 | 1.2 | 1.3 | 1.2 | 1.3 | 1.3 |
| **Clothing** | | | | | | |
| Value | 20.1 | 24.8 | 25.9 | 21.9 | 18.0 | 15.4 |
| Volume (metric tons) | 0.6 | 0.7 | 0.8 | 0.7 | 0.6 | 0.5 |
| Unit value per pound | 15.2 | 16.1 | 14.7 | 14.2 | 13.6 | 14.0 |
| **Other exports** | | | | | | |
| Value | 195.6 | 250.7 | 265.2 | 281.5 | 450.8 | 508.0 |
| **Re-exports** | **33.2** | **39.7** | **56.1** | **51.6** | **33.3** | **49.0** |

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

1/ Including re-exports and balance of payments adjustments.
2/ Excluding re-exports and balance of payments adjustments.

# Table 34. Panama: Principal Commodities Shipped Through the Canal

(In thousands of long tons)

| Fiscal Year Ended September 30 | Atlantic to Pacific | | | | | | Pacific to Atlantic | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| **Total** | **124,205** | **115,547** | **110,246** | **118,709** | **114,280** | **109,187** | **73,861** | **74,233** | **81,847** | **77,116** | **79,442** | **83,944** |
| Agricultural | 41,420 | 34,592 | 34,801 | 42,839 | 38,988 | 38,058 | 13,124 | 12,580 | 12,094 | 12,810 | 12,211 | 12,655 |
| Canned and refrigerated foods | 1,230 | 1,213 | 1,118 | 1,385 | 1,664 | 1,500 | 5,717 | 5,761 | 5,258 | 5,673 | 5,995 | 6,325 |
| Grains | 39,279 | 32,399 | 32,901 | 40,653 | 36,685 | 36,011 | 3,155 | 2,912 | 2,892 | 3,524 | 2,771 | 2,714 |
| Other | 911 | 980 | 782 | 801 | 639 | 547 | 4,252 | 3,907 | 3,944 | 3,613 | 3,445 | 3,616 |
| Mining products | 22,022 | 20,596 | 18,424 | 18,650 | 15,641 | 14,108 | 23,796 | 25,152 | 24,478 | 20,299 | 21,723 | 24,932 |
| Minerals | 130 | 101 | 70 | 150 | 53 | 80 | 6,842 | 7,126 | 6,224 | 5,127 | 5,354 | 7,135 |
| Phosphates and fertilizers | 14,805 | 13,888 | 13,391 | 13,633 | 11,596 | 10,044 | 1,135 | 1,193 | 1,144 | 837 | 961 | 1,553 |
| Ores and metals | 3,641 | 3,776 | 2,920 | 2,232 | 2,265 | 3,041 | 7,882 | 8,412 | 9,573 | 7,710 | 7,683 | 9,164 |
| Coke and coal | 3,446 | 2,831 | 2,043 | 2,635 | 1,727 | 943 | 7,937 | 8,421 | 7,537 | 6,625 | 7,725 | 7,080 |
| Crude oil and petroleum products 1/ | 19,245 | 19,151 | 18,527 | 20,038 | 19,978 | 19,143 | 13,541 | 11,591 | 12,195 | 8,591 | 7,161 | 10,886 |
| Chemicals | 9,555 | 8,860 | 7,299 | 8,311 | 8,710 | 7,108 | 1,820 | 1,502 | 1,990 | 2,812 | 2,800 | 2,830 |
| Manufactures of iron and steel | 4,705 | 3,911 | 4,462 | 3,393 | 3,685 | 3,612 | 3,640 | 4,249 | 8,846 | 8,440 | 8,381 | 5,148 |
| Machinery and equipment | 809 | 787 | 723 | 622 | 762 | 794 | 1,125 | 1,272 | 1,443 | 1,689 | 1,926 | 2,130 |
| Lumber and wood products | 7,238 | 7,146 | 5,689 | 5,950 | 5,603 | 4,488 | 3,792 | 4,060 | 3,747 | 3,683 | 3,726 | 3,455 |
| Miscellaneous | 19,211 | 20,504 | 20,321 | 18906 | 20913 | 21876 | 13,023 | 13,827 | 17,054 | 18,792 | 21,514 | 21,908 |

Sources: Panama Canal Commission; and Fund staff estimates.

1/ Includes crude oil, diesel oil, fuel oil, gasoline, jet fuel, liquified natural gas, kerosene, and asphalt.

Table 35. Panama: Travel Receipts and Expenditure, and Number of Visitors

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| | (In millions of balboas) | | | | | |
| **Net travel receipts** | **219.6** | **211.7** | **202.6** | **202.7** | **266.6** | **309.9** |
| Travel receipts | 359.9 | 376.8 | 378.8 | 387.2 | 453.2 | 485.9 |
| Tourists | 198.8 | 154.8 | 149.8 | 169.0 | 190.8 | 201.4 |
| Business, official, and education related travel | 53.1 | 88.3 | 93.5 | 95.7 | 95.4 | 103.0 |
| Travelers in transit and others | 108.0 | 133.7 | 135.5 | 122.5 | 167.0 | 181.5 |
| Expenditure of Panamanians traveling abroad | -140.3 | -165.1 | -176.2 | -184.5 | -186.6 | -176.0 |
| | (In thousands) | | | | | |
| **Visitors 1/** | **431.8** | **410.5** | **414.5** | **445.0** | **465.7** | **479.5** |
| Tourists | 340.3 | 261.4 | 252.3 | 280.8 | 311.4 | 315.2 |
| Business, official, and education related travel | 91.5 | 149.1 | 162.2 | 164.2 | 154.3 | 164.3 |
| **Travelers in transit 2/** | **460.6** | **576.7** | **565.0** | **502.0** | **683.4** | **720.0** |

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

1/ Entries into Panama excluding residents, immigrants, and persons in transit or whose destination is the Canal area.

2/ Nonresidents who spent less than 48 hours in Panama.

Table 36. Panama: Public Sector External Debt and Debt Service

(In millions of balboas; stocks at end of period) 1/

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Stock of external debt | | | | | | |
| Total | 5,127.3 | 5,081.1 | 5,415.8 | 5,632.7 | 5,664.9 | 6,316.7 |
| Multilateral | 806.0 | 933.4 | 1,146.5 | 1,166.8 | 1,113.1 | 1,098.7 |
| IMF | 130.9 | 142.2 | 170.4 | 148.7 | 90.0 | 53.8 |
| IBRD | 198.7 | 229.6 | 288.0 | 297.5 | 284.3 | 282.8 |
| IDB | 469.7 | 554.7 | 673.8 | 698.8 | 710.7 | 726.6 |
| IFAD | 6.7 | 6.9 | 14.3 | 21.8 | 28.1 | 35.4 |
| Bilateral | 562.1 | 524.7 | 523.5 | 500.2 | 441.0 | 384.2 |
| Paris Club 2/ | 385.4 | 333.1 | 313.2 | 299.2 | 266.0 | 235.3 |
| Venezuela, Mexico | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Support Group | 101.3 | 117.9 | 142.6 | 134.8 | 114.1 | 94.9 |
| Taiwan | 75.3 | 73.7 | 67.7 | 66.2 | 60.9 | 54.0 |
| Commercial banks | 3,724.2 | 3,594.2 | 3,745.2 | 3,965.5 | 4,110.4 | 4,833.9 |
| Medium- and long-term debt | 3,650.6 | 3,527.4 | 3,727.5 | 3,946.9 | 4,097.7 | 4,821.3 |
| *Of which:* Brady bonds | 3,227.6 | 2,027.9 | 1,965.0 | 1,781.6 | 1,648.1 | 1,496.0 |
| Other bonds | 365.4 | 1,499.6 | 1,762.5 | 2,165.4 | 2,449.6 | 3,325.4 |
| Short term 3/ | 73.6 | 66.7 | 17.7 | 18.6 | 12.7 | 12.5 |
| Suppliers 4/ | 35.0 | 28.9 | 0.6 | 0.2 | 0.5 | 0.0 |
| Debt-service obligations 5/ | | | | | | |
| Total | 480.4 | 1,509.8 | 589.8 | 739.8 | 726.6 | 929.3 |
| Principal | 236.0 | 1,227.5 | 302.7 | 407.5 | 391.3 | 535.7 |
| Interest | 244.4 | 282.3 | 287.1 | 332.2 | 335.3 | 393.6 |
| Multilateral | 170.2 | 139.2 | 120.2 | 141.7 | 169.2 | 157.2 |
| Principal | 124.0 | 97.1 | 72.3 | 75.6 | 106.0 | 89.3 |
| Interest | 46.2 | 42.1 | 47.9 | 66.1 | 63.2 | 67.9 |
| Bilateral | 67.6 | 83.5 | 78.7 | 85.6 | 86.5 | 83.8 |
| Principal | 30.4 | 57.2 | 58.0 | 65.1 | 67.2 | 67.2 |
| Interest | 37.1 | 26.3 | 20.7 | 20.5 | 19.3 | 16.6 |
| Commercial banks | 230.9 | 1,279.3 | 384.6 | 512.1 | 470.7 | 687.8 |
| Principal | 72.5 | 1,068.1 | 168.0 | 266.4 | 218.0 | 378.8 |
| Interest | 158.4 | 211.2 | 216.6 | 245.6 | 252.7 | 309.1 |
| Suppliers | 11.8 | 7.9 | 6.3 | 0.5 | 0.2 | 0.5 |
| Principal | 9.1 | 5.2 | 4.4 | 0.4 | 0.2 | 0.5 |
| Interest | 2.7 | 2.7 | 1.9 | 0.1 | 0.0 | 0.0 |

Sources: Ministry of Planning and Economic Policy; IMF; IBRD; IDB; and Fund staff estimates.

1/ Includes accrued interest arrears.

2/ From 1987 onward includes insured suppliers' credit.

3/ Includes arrears on money market facilities of the National Bank.

4/ Noninsured suppliers' credits only.

5/ Includes imputed charges on overdue obligations.

## Table 37. Panama: External Public Debt Indicators

(In percent)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Debt-service ratios 1/ | | | | | | |
| In terms of Central Government receipts 2/ | 31.1 | 94.5 | 34.5 | 39.2 | 34.5 | 48.9 |
| Principal due | 15.3 | 76.8 | 17.7 | 21.6 | 18.6 | 28.2 |
| Interest due | 15.8 | 17.7 | 16.8 | 17.6 | 15.9 | 20.7 |
| In terms of GDP | 5.9 | 17.4 | 6.3 | 7.7 | 7.3 | 9.1 |
| Principal due | 2.9 | 14.2 | 3.2 | 4.2 | 3.9 | 5.3 |
| Interest due | 3.0 | 3.3 | 3.1 | 3.4 | 3.3 | 3.9 |
| In terms of exports of goods and nonfactor services | 6.5 | 18.2 | 7.3 | 10.5 | 9.5 | 12.1 |
| Principal due | 3.2 | 14.8 | 3.7 | 5.8 | 5.1 | 7.0 |
| Interest due | 3.3 | 3.4 | 3.6 | 4.7 | 4.4 | 5.1 |
| External debt in terms of GDP 3/ | 62.9 | 58.7 | 58.0 | 58.5 | 56.5 | 62.1 |
| Multilateral and bilateral 4/ | 16.8 | 16.8 | 17.9 | 17.3 | 15.5 | 14.6 |
| *Of which:* IMF | 1.6 | 1.6 | 1.8 | 1.5 | 0.9 | 0.5 |
| Other 5/ | 46.1 | 41.8 | 40.1 | 41.2 | 41.0 | 47.5 |
| Effective external interest rates on total debt 6/ | 4.4 | 5.5 | 10.6 | 11.8 | 11.8 | 12.5 |
| **Memorandum item:** | | | | | | |
| **Six-month libor (year average)** | 5.6 | 5.8 | 5.7 | 5.3 | 6.6 | 3.1 |

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

1/ Debt-service ratios exclude payments due on short-term debt, but include payments due to the IMF.
2/ Central Government receipts include transfers from the rest of the public sector and exclude grants.
3/ Including interest arrears and short-term debt.
4/ Includes insured suppliers' credits.
5/ Includes nonguaranteed suppliers' credits.
6/ Interest rate on average debt outstanding during the period.

## Table 38. Panama: Labor Force Statistics

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 1/ |
|---|---|---|---|---|---|---|
| | (In thousands of persons) | | | | | |
| **Total population** | 2,674.5 | 2,718.7 | 2,764.9 | 2,811.9 | 2,847.0 | 2,903.0 |
| **Working age population** | 1,670.2 | 1,706.8 | 1,742.9 | 1,779.1 | 1,814.8 | 1,953.0 |
| **Total labor force 2/** | 1,012.1 | 1,049.4 | 1,083.6 | 1,089.4 | 1,086.6 | 1,177.9 |
| **Employment by activity** | 867.2 | 909.1 | 936.5 | 961.4 | 942.0 | 1,016.6 |
| Agriculture and mining | 176.0 | 171.6 | 167.3 | 168.4 | 163.0 | 222.9 |
| Manufacturing | 94.0 | 96.2 | 90.6 | 94.0 | 85.3 | 91.3 |
| Public utilities | 9.1 | 9.1 | 9.4 | 7.0 | 6.9 | 9.9 |
| Construction | 54.9 | 59.6 | 67.9 | 73.0 | 69.2 | 67.8 |
| Commerce | 153.0 | 168.1 | 177.5 | 182.7 | 181.0 | 181.3 |
| Banking | 22.1 | 22.8 | 24.4 | 23.9 | 27.3 | 21.9 |
| Transportation and communication | 59.0 | 62.1 | 63.7 | 73.0 | 71.7 | 77.7 |
| Other services | 299.1 | 319.6 | 335.7 | 339.4 | 337.6 | 343.8 |
| **Unemployment** | 144.9 | 140.3 | 147.1 | 128.0 | 144.6 | 161.3 |
| Unemployment Rate | 14.3 | 13.4 | 13.6 | 11.8 | 13.3 | 13.7 |
| **Memorandum items** | | | | | | |
| Number of employed by: | | | | | | |
| Employment by sector | 867.2 | 909.1 | 936.5 | 961.4 | 942.0 | 1,016.6 |
| Public sector | 160.2 | 161.8 | 167.2 | 156.1 | 171.6 | 175.7 |
| Private business | 359.4 | 372.7 | 394.3 | 424.1 | 401.6 | 409.9 |
| Self-employed | 250.3 | 275.9 | 282.6 | 296.1 | 291.3 | 300.8 |
| Other | 97.3 | 98.7 | 92.4 | 85.0 | 77.5 | 130.2 |
| | (Annual percent change) | | | | | |
| Total population | 1.7 | 1.7 | 1.7 | 1.7 | 1.2 | 2.0 |
| Working age population | 2.3 | 2.2 | 2.1 | 2.1 | 2.0 | 7.6 |
| Total labor force | 0.4 | 3.7 | 3.3 | 0.5 | -0.3 | 8.4 |
| Employed | 0.1 | 4.8 | 3.0 | 2.7 | -2.0 | 7.9 |
| Unemployed | 2.5 | -3.2 | 4.9 | -13.0 | 12.9 | 11.6 |
| | (In percent) | | | | | |
| Labor force participation rate 3/ | 60.6 | 61.5 | 62.2 | 61.2 | 59.9 | 60.3 |
| Employment rate 4/ | 51.9 | 53.3 | 53.7 | 54.0 | 51.9 | 52.1 |
| Unemployment rate | 14.3 | 13.4 | 13.6 | 11.8 | 13.3 | 13.7 |
| *Of which*: | | | | | | |
| Metropolitan areas 5/ | 16.9 | 15.4 | 16.0 | 13.8 | 15.2 | 16.6 |

Sources: Ministry of Labor; and Office of the Comptroller General.

1/ As of August 2001 household survey

2/ Excludes indigenous population, canal area and collective housing, but includes employees in the formal and informal sectors, employers, and the self employed.

3/ Total labor force as a percent of the working-age population.

4/ Employed labor force as a percent of the working-age population.

5/ Includes the cities of Panama and Colon.