

**FOR
AGENDA**

SM/04/76

March 5, 2004

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 2003 Article IV consultation discussions with Panama (SM/04/65, 3/1/04), which will be brought to the agenda for discussion on **a date to be announced**. 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. W. Lewis (ext. 37155) and Mr. Hendrick (ext. 38494) in WHD.

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PANAMA

Selected Issues and Statistical Appendix

Prepared by W. Lewis (Head), M. Dehesa, O. Hendrick,
J. Prat, and R. Romeu (all WHD)

Approved by the Western Hemisphere Department

March 4, 2004

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Panama: Basic Data

I. Social and Demographic Indicators

Area (thousand sq. km)	77,082	Access to safe water (2000)	
Arable land (percent of land area)	6.7	Percent of population	
		Total	92.0
Population (2001)		Urban	99.0
Total (million)	2.9	Rural	79.0
Annual rate of growth (percent a year)	1.6	Education (2000-01)	
Density (per sq. km.)	37	Net enrollment rates	
GDP per capita (US\$), 2001	3,511	Primary education	100.0
		Secondary education	62.0
Population characteristics (2001)		Tertiary education	27.0
Life expectancy at birth (years)	74.4	Adult literacy rate	92.1
Crude birth rate (per thousand)	21.4		
Crude death rate (per thousand)	5.1		
Infant mortality (per thousand live births)	19.0		
		Distribution of labor force, in percent (1999)	
		Agriculture	18.5
Income distribution (1999)		Industry and mining	24.8
Percent of income received:		Services	56.7
By highest 20 percent of households	63.0		
By lowest 20 percent of households	2.0	GDP (2002)	US\$12.3 billion

II. Economic Indicators 1999-2003

	1999	2000	2001	2002	Est. 2003
(Percent change)					
National accounts and prices					
GDP at constant 1996 market prices	3.2	2.5	0.3	0.8	3.9
Agriculture and mining	2.5	1.3	0.3	7.3	7.4
Manufacturing and construction	-0.6	-2.6	-7.1	11.3	11.9
Services	5.3	3.8	1.6	77.0	76.3
Consumer price index (end-of-period)	1.5	0.7	0.0	1.8	1.2
Monetary 1/					
Net domestic assets	22.1	6.4	7.4	0.4	-2.9
Credit to the public sector	-0.9	-0.4	-2.3	0.2	2.7
Credit to the private sector	19.0	6.7	9.9	-8.6	2.2
Liabilities to the private sector	8.6	8.9	9.5	0.9	4.6
REER, 12-month percent change (depreciation -)	4.3	-0.7	-1.4	-0.1	-7.8
(In percent of GDP)					
Investment and saving					
Gross domestic investment	33.1	28.7	28.0	25.6	25.6
Of which: private sector	28.3	25.0	24.5	21.3	21.2
Gross national savings	18.8	19.4	23.1	24.7	22.4
Of which: private saving	16.0	16.5	19.4	23.3	20.8
Nonfinancial public sector					
Revenue and grants	24.6	26.1	24.9	25.3	24.7
Expenditure	25.8	25.6	26.7	27.2	27.2
Current	17.7	17.6	18.3	18.7	18.4
Capital	4.5	3.8	4.1	4.3	4.4
Primary balance	2.4	4.7	2.6	2.3	1.9
Overall balance	-1.2	0.5	-1.7	-1.9	-2.4
External current account	-10.2	-5.8	-1.4	-0.8	-3.2
Gross public debt	61.9	58.2	63.3	63.6	65.4
External	48.9	46.9	51.9	51.6	49.6
Domestic	13.0	11.2	11.4	12.0	15.8

Panama: Basic Data

	1999	2000	2001	2002	Est. 2003
(In millions of balboas)					
Balance of payments					
Trade balance	-1,340	-1,143	-696	-1,037	-1,030
Exports, f.o.b.	853	1,047	1,079	970	1,017
Imports, f.o.b.	-2,772	-2,705	-2,304	-2,354	-2,510
Colon Free Zone (net)	578	515	529	346	463
Services (net)	701	854	899	992	1,170
Income	-691	-577	-602	-308	-799
<i>Of which:</i> NFPS interest	-327	-366	-415	-449	-485
Current account	-1,159	-689	-174	-104	-414
Capital and financial account balance	1,364	203	890	95	265
Overall balance	-91	-91	416	63	-149
Stock of net international reserves	825	707	1,116	1,171	1,013
IMF data (as of December 31, 2003)					
Membership status:					Article VIII
Intervention currency and rate					B 1.00 per U.S. dollar
Quota					SDR 206.6 million
Fund holdings of local currency					SDR 224.75 million
(as percent of quota)					108.79 percent
Outstanding purchases and loans					SDR 30.0 million
Extended arrangements					SDR 30.0 million
SDR department					
Net cumulative allocation					SDR 26.3 million
Holdings					0.56 million

Sources: Panamanian authorities; and Fund staff estimates.

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

I. THE SOCIAL SECURITY SYSTEM—A PENDING REFORM¹

Summary

- There is a broad public agreement that: (i) the social security agency (CSS) is facing a severe financial crisis; and (ii) urgent measures are needed to ensure its sustainability.
- This chapter explores the current situation and trends of the CSS in Panama, and the options put forward by the members of the national dialogue on social security reform to address the financial crisis.
- The cornerstone of the problem is the imbalance between pension benefits and contributions to the pay-as-you-go system. The liability to current pensioners is estimated at US\$2.7 billion (21 percent of GDP). The total unfunded obligations, taking into account the claims of current contributors, was estimated at 56 percent of GDP in a 1998 ILO study. On current trends, the financial reserves would be depleted during the next decade.
- The UNDP is assisting as a facilitator of the national debate and a compiler of the proposals presented by the government, employers, workers, and the civil society. Consensus has been reached on some key components of the CSS programs, but the task force on pensions (IVM) has reached no conclusions.
- Proposals tabled have included higher contribution rates, a longer minimum contribution period, changes in retirement age (employers), and the preservation of existing benefits (workers). Because no single measure would solve the problem, there is a need for a combination of the different proposals put forward by the IVM task force, and an important element of a comprehensive reform would be a reduction in the costs of administration of the social security system.
- The current authorities in coordination with the forthcoming administration (presidential elections are scheduled for May 4, 2004) will face the challenge of taking actions needed to attain the financial viability of the CSS, and ensure that it will remain financially viable over the long term.

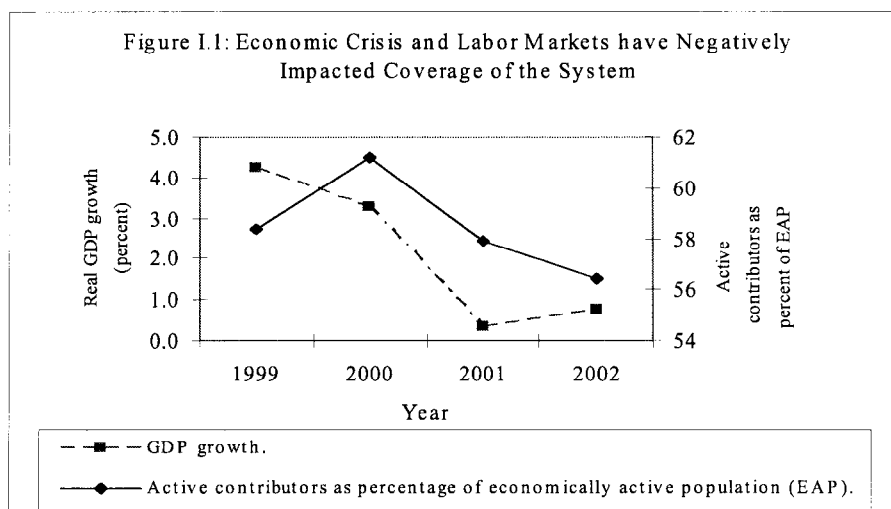
¹ Prepared by Oscar A. Hendrick (WHD).

A. Overview of the Social Security System

Basic characteristics of the system

1. **The social security system is administered by the *Caja del Seguro Social (CSS)*, a public agency with substantial administrative and financial autonomy.**² The autonomy is embedded in its Organic Law, which also provides the agency with the right to have separate funds from the central government. To provide comprehensive social protection, according to the constitutional mandate,³ the CSS is organized in four independent programs: (i) disability, old age and death benefits (IVM); (ii) health and maternity care (HM); (iii) professional risks (PR); and administration (AD). The administration program encompasses the operational and administrative activities of the CSS. The pension program (IVM), a pay-as-you-go system, accounts for more than half of the total CSS revenue and expenditure.

2. **The slowdown in economic activity and employment has led to a recent decline in the coverage of the social security system.** The coverage of the CSS, defined by the sum of its affiliates and dependent beneficiaries, in relation to the population, reached 67 percent by end-2002.⁴ About 56 percent of the economically active population (EAP) contributes to the CSS, but the coverage rate has decreased slightly in the last few years (Figure I.1). The number of active contributors also has decreased in the last three years, possibly because of evasion.



² Created by Law 23 in March 1941.

³ Political Constitution, Art. 109 and 110.

⁴ This included some 640,000 active contributors, 140,000 pensioners, and 1.2 million dependents.

3. **The Panamanian pension levels are generous, despite the lack of indexation, even by the high standard of advanced European countries, and among the highest in Latin America (Tables I.1 and I.2).** The pensionable base or the reference wage is the average wage over the best seven years of a worker's wage history. For a minimum contribution period of 15 years, a worker receives a pension of 60 percent of the reference wage (minimum replacement rate), and for every additional year of contribution, 1¼ percentage points are added, up to 100 percent. A ceiling on the monthly pension of US\$1,500 is not binding for most pensioners, since the average monthly wage is below US\$450. The retirement age is 62 years for men and 57 years for women.

Table I.1 Panama: Latin America—Comparison of Retirement Ages, Contribution Period, and Replacement Rates

	Retirement Age		Minimum Contribution Period (Years)	Replacement Rate (Percent)	
	Men	Women		Minimum	Maximum
Argentina	65	60	30	(c)	53
Bolivia	65	60	15 (a)	30	100
Brazil	65	60	30	70	100
Colombia	62	57	20 (a)	65	85
Chile	65	60	20 (b)	50	70
Ecuador	55	55	30	75	100
El Salvador	60	55	25	30	60
México	65	65	24	40	80
Nicaragua	60	60	15	45	80
Panama	62	57	15 (b)	60	100
Peru	65	65	20	50	80
Venezuela	60	55	15	30	100

Source: Mesa-Lago, Betranou (1998).

(a) Not defined for the new system.

(b) Only for minimum pension.

(c) Defined every year.

Table I.2. Panama: Comparison with Europe's Contribution Rates, Retirement Age, Minimum Contribution Period and Replacement Rates

Country	Contribution Rate	Retirement Age	Contribution (Years)	Replacement Rate
France	19.9	60-65	40	45.0
Luxemburg	16.0	60-65	40	77.4
Germany	19.3	63	40	43.0
Belgium	19.9	60-65	40	53.3
Panama	9.5	57-62	40	91.3

Source: International Labor Organization.

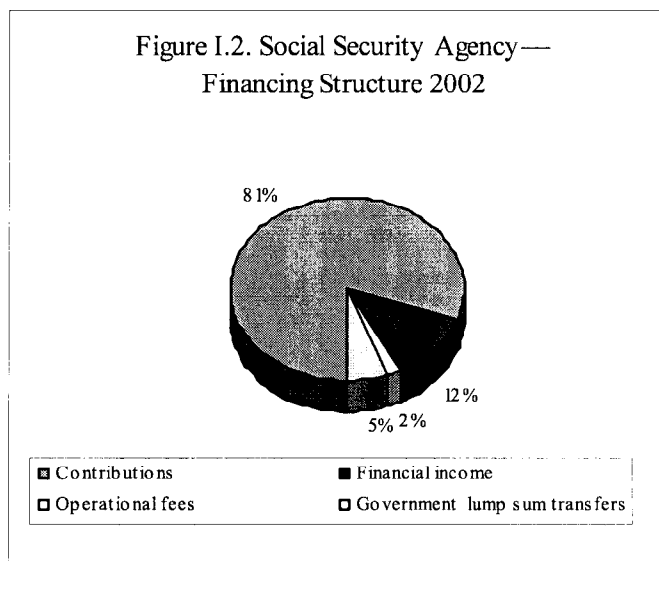
4. **The CSS is under-funded despite a combined contribution rate over 20 percent.** The allocation of contributions from employers, workers, and the government is detailed in Table I.3. Self-employed workers contribute 18 percent of their labor income, in the absence of an employer contribution. Surpluses in one program cannot be used to finance deficits in other programs. An additional source of funding is the return on the financial reserves, miscellaneous services fees, and the government contribution (Figure I.2).

Table I.3. Panama: Allocation of Contributions Among the CSS Programs
(In percentage of gross salaries)

Program	Worker	Employer	Government	Total
IVM (pensions)	6.75	2.75	0	9.50
Health and maternity care	0.50	8.00	0	8.50
Professional risks 1/	0	1.65	0	1.65
Administration	0	0	0.80	0.80
Total	7.25	12.40	0.80	20.45

Source: Social Security Agency (2003).

1/ Average premium. The contribution rate for the Professional Risk program varies between 0.9 and 5.0 percent according to the risk category.



The CSS financial crisis

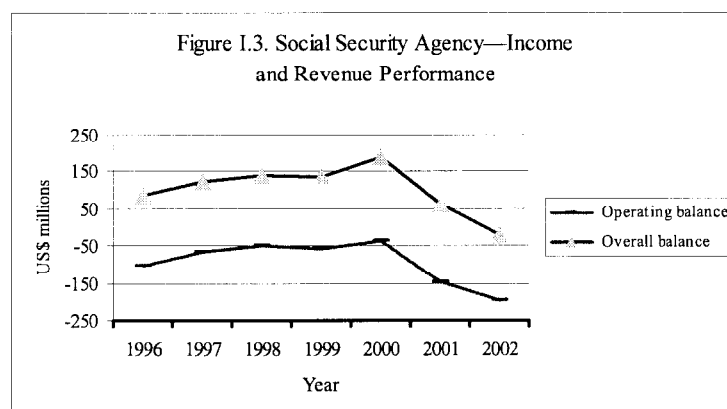
5. **The finances of the CSS have deteriorated markedly in recent years.** The balance shifted from a surplus (after government transfers) of US\$141 million in 1998 to an estimated deficit of US\$60 million in 2003. Interest income from financial reserves helped ensure an overall surplus in earlier years. However, this income source is on a declining path, since reserves started to decline in 2002 to cover the remaining deficit after government transfers. The deficit is projected to widen progressively in the absence of reform (Table I.4).

6. **The financial imbalances in the CSS have been exacerbated by a sharp increase in operating costs, stagnant government contributions, and a marked decline in other income.** In the last seven years, personnel expenditure has grown 52 percent, well above the growth in contributions; while other operating expenditure grew 32 percent in the same period. In the period 1999–2002, total expenditure grew 24 percent, while total contributions rose only 6 percent. The relatively poor performance in contributions is associated with arrears of the public and private sectors, and probably also an increase in evasion and informal economic activity. At end-June 2003 the arrears amounted to US\$162 million, or 1.3 percent of GDP. Additionally, financial income from the reserves has been sharply reduced due to the lower international rates and a conservative portfolio management strategy. Added cost pressures result from automatic wage increases (Leyes Especiales) for several groups of CSS workers (Figure I.3).

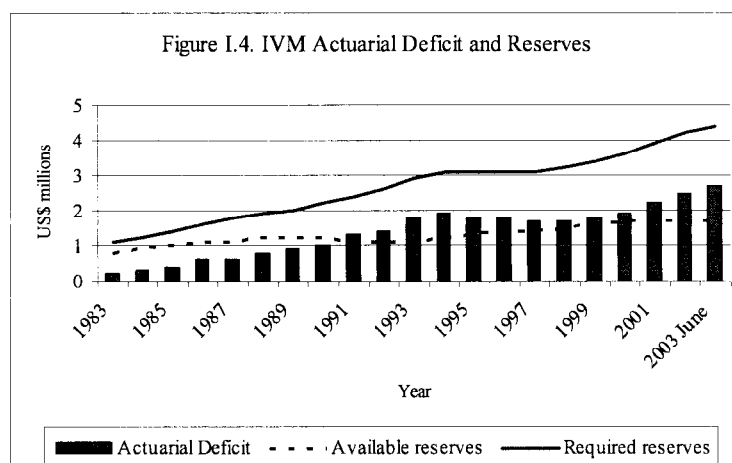
Table I. 4. Panama: CSS Income Statement
(In millions of U.S. dollars)

	1996	1997	1998	1999	2000	2001	2002	Jan.- Jun. 2003	Memorandum Items	
									2002 (Percent of GDP)	1996–2002 (Percentage Change)
1. Total contributions	573	618	659	692	745	723	735	368	3.0	28.3
Regular contributions	530	571	608	636	688	668	680	341	2.8	28.3
Professional risks premium	43	47	51	56	57	55	55	27	0.2	27.9
2. Total expenditure	676	684	709	749	783	869	932	479	3.9	37.9
Pension benefits	396	403	415	439	461	501	516	270	2.2	30.3
Personnel expenditures	172	179	187	198	206	232	262	134	1.1	52.3
Other operating expenditure	102	96	98	101	103	121	135	65	0.5	32.4
Provisions	6	6	9	11	13	15	19	10	0.1	216.7
3. Operating balance (1) - (2)	-103	-66	-50	-57	-38	-146	-197	-111	-0.9	91.3
4. Other income	140	141	147	147	184	158	128	60	0.5	-8.6
Financial income	121	126	132	131	170	143	109	52	0.4	-16.9
Other income	19	15	15	16	14	15	19	8	0.1	4.6
5. Balance before transfers (3) + (4)	37	75	97	90	146	12	-69	-51	-0.4	...
6. Government contributions	48	46	44	44	43	50	50	25	0.2	4.6
7. Overall balance (5) + (6)	85	121	141	134	189	62	-19	-26	-0.2	...

Source: Social Security Agency.



7. **The reserves of the CSS fall short of the legal requirement by 21 percent of GDP (Figure I.4).**⁵ The actuarial deficit is defined as the difference between the reserves required by the CSS Organic Law and the available reserves. The CSS projects that, on current trends, the reserves could be depleted by 2013 (Figure I.5). This date is even earlier than indicated in the study made by the International Labor Organization (ILO),⁶ which had forecast that reserves would continue until 2018. This study also estimated the total unfunded pension liabilities, including obligations to current contributors to the IVM, at US\$7.1 billion in NPV terms, equivalent to 59 percent of GDP. Large future pension deficits reflect a rising dependency ratio, which is projected to increase from 11 percent in 2001 to 43 percent by 2050.⁷

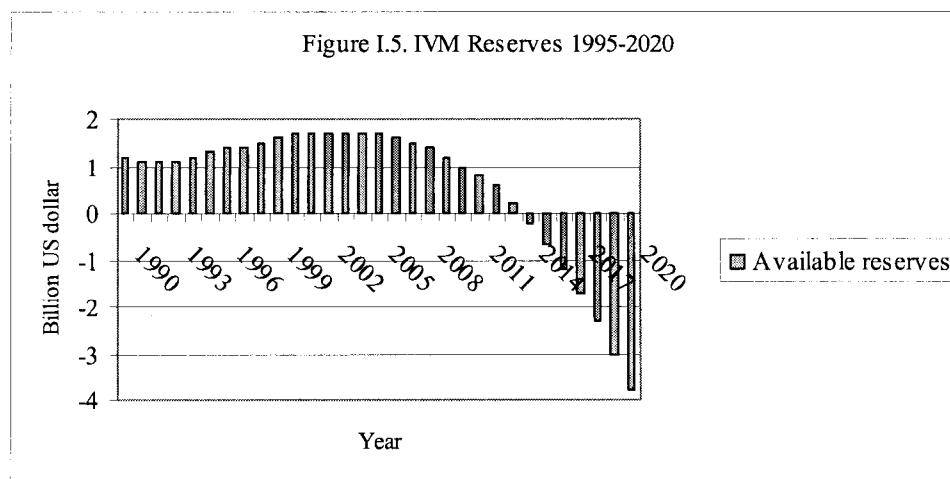


⁵ The CSS Organic Law requires the CSS to maintain a level of capital reserves equal to the present value of all obligations to current pensioners (Articles 34 and 34a).

⁶ The 2001 ILO study updated a 1998 study, which projected the depletion of reserves in 2023. The assumptions in the ILO studies, which preceded the growth slowdown of 2001–02, were more optimistic than in subsequent projections.

⁷ Defined as the ratio of pensioners to contributors to the pension scheme.

8. **The financial deterioration is rooted in several structural factors.** In addition to the aging of the population, the current pension contribution rate of 9.5 percent is low relative to the size of pension benefits. The CSS imbalances are compounded by the recent rapid growth in personnel in the social security sector, which may not be easily reversed. The 2001 ILO study had forecast that reserves would begin to be drawn down to cover the pension deficit starting in 2005; however, as noted above, this began in 2002. The problem of unsustainable CSS finances has become larger and more urgent than before.



B. National Dialogue on Social Security Reform

The political process and the task forces

9. **In Panama, as in any country, social security reform is a sensitive political issue.** The government's strategy is to build a strong consensus for reform that leads to ownership across broad segments of society.⁸ In 1991, a pension reform increased the retirement age by two years and eliminated the option of early retirement. These measures intended to maintain a positive overall balance until 2020, so that reserves would not need to be drawn down. However, despite the high political cost paid by the administration at that time, by 1994 it was clear that these changes were insufficient.

10. **The National Dialogue on social security reform achieved consensus on key issues, but it has been unable to agree on reform of the most important program, the pension scheme.** In March 2001, President Moscoso called for a National Dialogue on the CSS and asked the UNDP to facilitate the debate. Workers, pensioners, employers, academics, and representatives of civil society were invited to participate in the dialogue. The UNDP organized several seminars for all Dialogue participants on the characteristics of the

⁸ The current administration has a slim majority in the Assembly.

CSS and its current and prospective financial situation, and it supported the development of an actuarial model to evaluate proposals for reform.

11. **The National Dialogue created four task forces in August 2001, one for each of the programs administered by the CSS.** By November 2002, only the task forces on the health care and maternity program and the CSS administration program had reached full consensus. The task force on the workmen's compensation program drafted a revised law, but not all aspects of it had been agreed with the workers representatives. The pension task force has found the question of burden sharing in the design of pension reform to be intractable. Its deliberations have concentrated on the estimation of unfunded pension obligations (i.e., the size of the actuarial deficit), on the basis of which different proposals would be assessed. Various proposals have been presented to the task force, including higher contribution rates, a longer minimum contribution period, changes in retirement age (employers), and the preservation of existing benefits (workers). The actuarial model was being validated by the CSS in early 2004, after which it may be made available to National Dialogue participants. It would provide updated projections of unfunded (direct and contingent) liabilities of the pension system and could be used to quantify the impact of proposals for pension reform (Table I.5).

Table I.5. Panama: Main Consensus Reached by the Task Forces

Program	Status of Proposals	Date
IVM (Pensions)	– Change of the Organic Law to create a specialized unit in charge of managing the financial reserves.	Pending 2004
	– Five proposals were formally presented.	June 2002
HM (Health care)	– Consensus on reform elements. <ul style="list-style-type: none"> • A new national health system. • A new health care model. • Modernization of the medical records. 	November 2002
PR (Prof. risks)	– A comprehensive review of the legal framework. A draft of a revised Law has been presented.	November 2002
AD (Administration)	– Consensus on reform. <ul style="list-style-type: none"> • Improving administrative process and information systems. • Changes to the Organic Law to increase the return 	November 2002

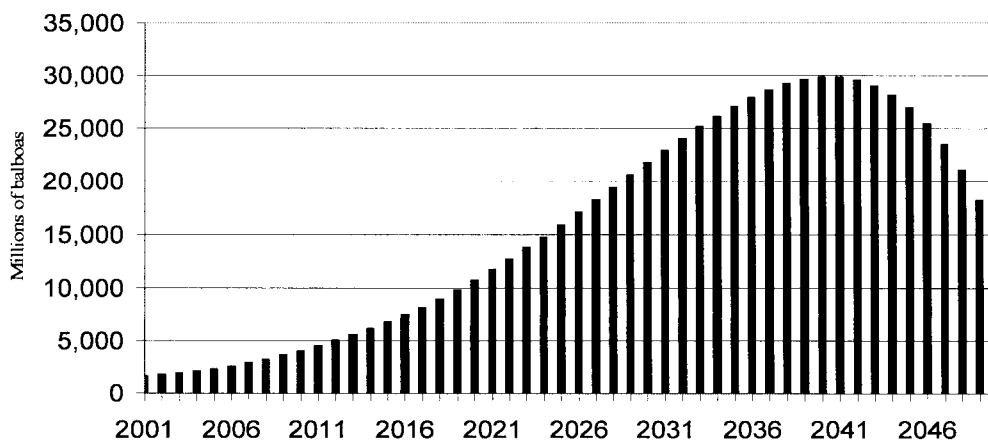
The government proposal

12. **President Moscoso presented a proposal to the National Dialogue on social security reform that called for burden sharing between the public and private sectors.** The government would contribute an income stream to the IVM reserves from a trust fund that would receive the remaining shares of privatized enterprises. This equity is valued at an estimated US\$700 million. The proposal also included recommendations for:

- increasing the pension contribution rate by 2 to 3 percentage points, to be distributed between workers and employers, with an estimated NPV of US\$1.4–2.2 billion; and
- improving the return on the financial reserves by investing in higher yielding financial assets such as the Panamanian global bonds.

The combined effect of the proposed measures would be to delay the need to draw from the financial reserves until about 2040.⁹ A deficit would eventually emerge, based on the demographics and economic assumptions, since the projections assumed no change in the requirements and benefits provided by the IVM program (Figure I.6).

Figure I.6. IVM Reserves Government Proposal



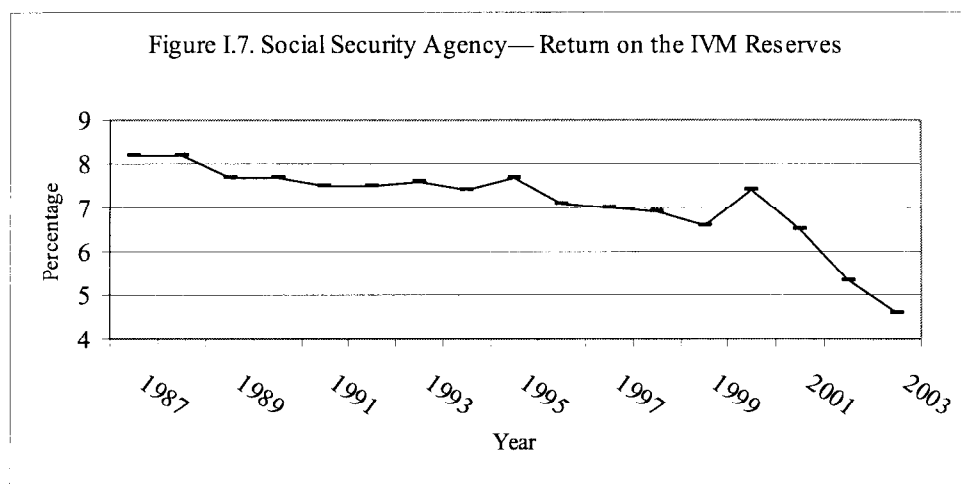
Source: Ministry of Economy and Finance.

C. Looking Ahead

13. **A political decision would need to be taken in light of the low probability of reaching consensus on the financing of the actuarial deficit by the members of the task**

⁹ “Programa de Invalidez, Vejez y Muerte: Propuesta del Gobierno Nacional, Caja del Seguro Social”. Presentation by the Vice Minister of Finance, MEF, June 2002.

force. Final approval of the actuarial model by the CSS does not guarantee that the results will be accepted by all members, particularly labor union representatives. Even if an agreement is reached on the size of the actuarial gap and, the quantitative impact of the proposals, the pension task force would still face the difficult task of agreeing on the burden sharing to be embedded in a comprehensive pension reform that could achieve the long-term financial viability of the pension program (Figure I.7).



14. **The work of the National Dialogue can provide a basis for social security reform.** Until now, the government and the UNDP, as facilitator of the Dialogue, have maintained the objective of attaining full consensus. As a result, the validation of the actuarial model has not been finalized, a step that is required before evaluating alternative reform proposals. In principle, once the model has been validated, the authorities could decide to make it available to all National Dialogue participants, and invite them to present reform proposals and quantify their impact. Future decisions on the design of pension reform could be based on the results of these assessments.

15. **The authorities have taken steps to improve the finances of the CSS, including by allowing greater flexibility in the management of the pension reserves.** In line with the strategy announced by the current administration in 2003, the CSS was authorized to utilize private sector financial intermediaries to help manage the financial reserves, a task that had been assigned exclusively to the National Bank of Panama (BNP). The aim is to increase the return on the reserves, which averaged 4.6 percent in August 2003 by investing in Panamanian global bonds, which currently yield 8 percent (Table I.6). This investment is

authorized by the CSS Organic Law and has the potential to substantially increase the overall rate of return¹⁰.

Table I.6. Panama: CSS Financial Assets and Average Return

Assets (at end-August 2003)	Amount (Million of US\$)	Share (percentage)	Average Return (percentage)
Total	1,931	100.0	4.6
Fixed term deposits	1,135	58.8	2.4
BNP	929	48.1	1.4
Caja de Ahorros	206	10.7	6.9
Government bonds	624	32.3	7.9
Caja de Ahorros bonds	71	3.7	6.4
Mortgage loans	58	3.0	8.3
Loans to the BNH	43	2.2	8.8

Source: Social Security Agency (2003).

16. **The National Dialogue has set the stage for a comprehensive social security reform.** Progress has been made through the National Dialogue in achieving consensus on reform of some of the CSS programs, and a model is nearly ready that could be used to evaluate proposals for pension reform. The increased public awareness of the need for social security reform helps establish the feasibility of the needed reforms.

¹⁰ The fiscal impact of increasing the yield of reserves would be partly offset by a reduction in NBP profits, hence in dividends paid to the government, since the CSS deposits with the NBP (equivalent to 7 percent of the GDP) are a low-cost source of funding for the BNP.

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II. DOES PANAMA NEED A LENDER OF LAST RESORT AND/OR DEPOSIT INSURANCE?¹

A. Introduction

1. **A country's framework for financial stability often includes a lender of last resort (LOLR) and, in many cases, deposit insurance.** Panama lacks a LOLR facility, in part because with full dollarization it has no central bank, which in most countries is the lender of last resort. This chapter considers whether Panama should adopt a LOLR scheme, and whether it should introduce deposit insurance in Panama as part of the strategy for maintaining public confidence in the banking system.

2. **Section B describes the framework for financial stability that Panama uses in the absence of a public financial safety net.** Section C outlines the case for, and potential disadvantages of, adding to this framework a public financial safety net in the form of a LOLR or deposit insurance. Section D reviews Panama's experience without a lender of last resort. The final section seeks to draw conclusions.

B. Panama's Framework for Financial Stability

3. **Panama's current framework for a sound banking system² includes a strong regulatory framework, effective supervisory oversight, supervision of cross-border banking, and transparency.** The framework does not include a public sector financial safety net, however, which could include liquidity support facilities, deposit insurance, or both. Consequently, emphasis is placed on efficient and well-capitalized banks, and provision for ample liquidity to meet unanticipated needs.

4. **The authorities' emphasis on crisis prevention is reflected in a strong regulatory framework and an efficient process when bank liquidation or other bank exit is needed.** The 1998 banking law created an independent Superintendency of Banks that replaced the National Banking Commission. Bankers and authorities recognized that the previous weak supervisory framework was hindering the continued development of the banking system and limiting the opportunities abroad for local banks (Moore, 2001).³ The authorities established liquidity and capital requirements and bank exit guidelines consistent with international best

¹ Prepared by Mario Dehesa (WHD).

² The banking system refers to general license banks, which comprise the domestic (onshore) banking system. Panama's international banking center comprises the domestic banking system and offshore banks (international license banks).

³ Local banks found it difficult to establish branches outside Panama, while international banks also had difficulty in justifying their presence in Panama.

practices.⁴ Forced bank liquidation now follows an administrative process, allowing for more efficient bank exit than the previous judicial process. At end-2003 the Superintendency of Banks upgraded the procedures for bank mergers and acquisitions, which require the prior submission of a business plan.

5. **There exist various mechanisms for channeling liquidity to banks with liquidity shortfalls.** Banks meet their liquidity needs through a sizeable interbank market; interbank deposits accounted for over 8 percent of domestic deposits at end-2003, at an average premium of about 50 basis points over the overnight Fed funds rate. A state bank, the Banco Nacional de Panama (BNP), has credit lines with several (mostly smaller) banks and sometimes has played the role of market-maker.⁵ Nonetheless, the BNP's ability to cushion a liquidity shock is limited by the size of its balance sheet (11.5 percent of the banking system assets), and its participation in the inter-bank market (5.5 percent at end-2003). Although the BNP maintains a high liquidity ratio,⁶ the available liquidity is not large in relation to potential systemic needs in the event of a deposit run. The BNP's net foreign assets covered 10 percent of M2 at end-2003.

6. **The foreign bank presence in the domestic banking system is a potential source of stability to the banking system.** Foreign banks, accounting for over 40 percent of total assets as of end-2003, contribute to financial stability through diversification and lowering bank concentration; lower financing costs when the foreign parent banks have better credit ratings than local banks; greater access to funds including credit lines with parent banks, which may be particularly important when there is no LOLR; and potentially increased reputation of the banking system and therefore lower probability of bank panic and capital flight. When uncertainties give rise to a flight to quality, foreign banks may offer an alternative to capital flight abroad (Schipke, 2003).

⁴ In 2001 an IMF Offshore Financial Center Module 2 assessment found Panama to be compliant with most Basel Core principles. The Superintendency of Banks adopted an action plan to achieve full compliance, and has posted a progress report on its website (www.superbancos.gob.pa).

⁵ The BNP plays a central role in the banking system, acting as financial agent for the public sector, performing clearing house functions, and ensuring an adequate supply of U.S. currency to the banks.

⁶ At end-September 2003 the BNP's liquid assets were equivalent to 45 percent of its deposits (or, including negotiable securities, 55 percent).

C. Evaluating the Case for a Financial Safety Net

Objectives

7. **The purpose of a financial safety net is to promote the stability of the financial system by enhancing confidence in the banking system.** The two key elements of most financial safety nets are a lender-of-last-resort facility and a deposit insurance scheme. The need for a financial safety net arises from banks' vulnerability to losses of confidence and the large externalities associated with their failure. Bank assets are less liquid than liabilities, which are predominantly short-term deposits that are susceptible to deposit runs. A liquidity shortage in an individual bank may have an adverse impact for the financial system through exposure to the problem bank via the interbank market or the payment system. The rationale for a lender of last resort is to help illiquid (but solvent) banks avoid a run on deposits; this function is particularly important when the bank is large enough to allow contagion effects in the rest of the banking system.

Lender of last resort

8. **The main objectives of a lender of last resort (LOLR)** are to protect the integrity of the payments system; prevent illiquidity at an individual bank from unnecessarily leading to its insolvency; and avoid contagion effects in which problems of illiquidity in one bank spill over to other banks and develop into a systemic crisis (Folkerts-Landau and Lindgren, 1998).

9. **LOLR facilities create moral hazard if banks believe they are protected against risk because they would receive loans from the lender of last resort during a crisis.**⁷ In Panama, the banking industry and the authorities regard the moral hazard as an important deterrent to establishing a lender of last resort. They believe that market discipline and a strong institutional framework for bank regulation and supervision are critical to ensuring that the banking system remains sound; and the moral hazard that would accompany a LOLR facility would, in their view, tend to undermine that discipline. They also point to Panama's experience in managing banking system stress without a lender of last resort (described in Section D).

Deposit insurance

10. **Deposit insurance could be introduced with the objective of enhancing public confidence and systemic stability, shifting the cost of a possible rescue of deposit holders from the government (implicit guarantee) to the banking system (explicit guarantee).** It would be part of a framework for the resolution of failed banks that is designed to keep bank

⁷ The moral hazard problem may be compounded because, when LOLR support is provided, the distinction between illiquidity and insolvency may be blurred so that there is a risk of lending to an insolvent bank.

failures from spreading, and as such could be seen as helping to compensate for the absence of a lender of last resort. It also could help provide a safe asset to small savers.

11. **There is a risk, however, that moral hazard and the costs of insurance premia would outweigh the potential benefits.** As deposit insurance reduces the incentive of depositors to monitor banks, it can also encourage excessive risk taking. Historical experience (see below) suggests that confidence in the banking system has not suffered demonstrably from the lack of deposit insurance.

12. **Moreover, cross-country evidence suggests that explicit insurance tends to be detrimental to bank stability,** the more so where bank interest rates have been deregulated and the institutional environment is weak.⁸ An effective system of prudential regulation and supervision is in place—as in Panama—may offset weaknesses in market discipline created by deposit insurance. In such a case, however, the need for deposit insurance to instill confidence in a sound banking system also is diminished.

13. **Partial implicit deposit guarantees exist but are not a close substitute for explicit deposit insurance.** There is a perception that the two state-owned banks have an implicit government guarantee. Foreign-owned banks (frequently with first-rate parent banks) may also enjoy explicit or implicit support from their headquarters. Branches of foreign banks operating in Panama may have the depositor protection effective in their home country. Under the 1998 banking law, persons holding accounts with total deposits under US\$5,000 have seniority over other depositors and non-government creditors in case of bankruptcy.⁹ More than half of the small depositors under the US\$5,000 threshold have their accounts in state-owned banks, which have extensive branch networks throughout the country.

14. **Previous efforts to develop contingent credit lines for individual banks did not prosper.** The new banking law eliminated the contingent credit clause included in the 1970 banking law. The old banking law required all banks to establish a contingent credit line equivalent to 10 percent of their assets. The National Banking Commission was also entitled to negotiate with banking system members a credit line to support an individual bank facing liquidity shortages. In the event, the clause was not enforced.

15. **Plans for a new contingent credit mechanism were developed by the main public bank, Banco Nacional de Panama (BNP).** The BNP recently introduced a new facility for

⁸ Based on a panel of 61 countries that had deposit insurance over the period 1980-1997 (Demirgüç-Kunt and Kane, 2002).

⁹ With income per capita in Panama of about US\$4,500 in 2003, such protection to depositors is below the weighted world average of deposit insurance coverage of 2.1 times income per capita.

standby lines of credit as a liquidity management tool whereby banks could, for a commitment fee, establish a one-to-three month line of credit. The standby loan requires 115 percent in Panamanian government instruments as collateral. The amount of the contingent credit line would be determined bank by bank, and the lending rate is the U.S. prime rate plus 50 basis points. So far, the banks have not expressed interest in this option; apart from the cost of the contingent credit line, there are concerns that the existence of a contingent credit line might send an adverse, inaccurate signal about bank soundness.

D. Panama's Experience Without a Lender of Last Resort

16. **The Panamanian banking system depends on market discipline to promote an efficient banking system and avoid banking crisis.** Without direct government intervention the international banking center has experienced substantial expansionary and contractionary cycles over the last several decades. Insolvent banks have been allowed to fail and the cost of failure has been borne by shareholders and bank creditors. Bank failures did not result in a fiscal rescue of private banks.

17. **Bank entry and exit have been managed without causing instability in the banking system.** The assets of Panama's international banking center rose to US\$38 billion in 1980 (US\$47 billion in 2003 prices) while the center included nearly 100 banks, of which the onshore sector accounted for about two thirds (Tables II.1–II.3). Banking activities in the 1980s were affected adversely by the Latin American debt crisis, and the political and economic crisis of 1988–89 during the Noriega period (Annex).¹⁰ Bank intermediation recovered somewhat in the 1990s, supported by regional growth, before financial turmoil in South America during 2001–02 reduced again its size to about US\$32 billion in 2003. At end-2002 the number of banks had decreased to 77, with half of them in the onshore sector. Nonetheless, there is little evidence to suggest that the banking system's adjustment to exogenous shocks would have been facilitated by the existence of a lender of last resort.

18. **Bank failures in Panama have generally been small and infrequent.** The only systemic banking crisis in the last 30 years was the crisis of 1989-90 that was political in origin. There has not been any systemic banking crisis caused by contagion from foreign financial markets, nor from excessive risk taking, fraud, credit concentration or a lack of competitiveness. Banking failures have been isolated cases with no contagion effects to other domestic banks. Since 1973 there have been 14 forced bank liquidations (Lee, 2003). The financial position of most commercial banks weakened during the Noriega crisis, and 12 banks ceased operations including voluntary exits. Since 1990 there have been three bank failures, 11 voluntary exits and 31 mergers and acquisitions (Table II.4).

¹⁰ The annex describes Panama's experience in coping with banking crises and liquidity shortages in 1988-89 (the Noriega years) as well as during the financial market turbulence in South America in 2001–02.

19. **The 1998 banking law modernized the bank resolution framework in line with the Basel guidelines for effective banking supervision.** The current approach emphasizes early detection of bank problems, prompt corrective action and, if a bank needs to be intervened, doing so expeditiously so as to minimize the risk to the banking system of contagion. The Superintendency of Banks can intervene a bank that fails to comply with capital adequacy requirements or repeatedly fails to meet liquidity requirements, and allow the bank to attempt a restructuring within well defined time limits. If the effort does not succeed, the bank enters a liquidation process.

20. **The experience with the two most recent bank failures highlights the improvements in bank resolution procedures.** Banaico, with 1.5 percent of GDP in assets, failed in 1996 as a result of fraudulent lending to a related offshore bank. The judicial process has been slow and depositors experienced substantial losses (more than 70 percent) in the funds they have recovered so far. By contrast, Banco Disa failed in early 2002 with assets equivalent to 1.2 percent of GDP. Forced liquidation resulted from the discovery of undisclosed off-balance liabilities that could not be supported with existing assets. Losses in assets invested in Latin American securities during 1996–98 exceeded bank equity. The bank resolution mechanisms introduced in the 1998 banking law led to an orderly asset liquidation through public auctions lifting the depositor's recovery rates to about 50 percent.

E. Conclusions

21. **Panama has managed for a long time without a lender of last resort or deposit insurance.** The greatest shock to the banking system in recent decades was the Noriega political crisis of 1988–89, which was resolved with a rapid restoration of confidence in the banking system and with no major fiscal costs. More recently, the banking system was resilient to the turbulence arising from financial markets in South America in 2001–02. Panama's emphasis on crisis prevention has succeeded thus far, thanks to the high priority given to maintaining a sound banking system. The market discipline perceived by commercial banks and the strengthened supervisory framework in recent years appear to have helped limit contagion from unsettled financial markets outside Panama.

22. **But the institutional framework, which does not include a public financial safety net, has not yet faced the severe test of coping with a major bank failure.** If a systemic banking crisis were to occur, the liquidity of the major state bank (BNP)—while ample in normal times—would have only a limited ability to provide needed liquidity to the banking system. Private banks may have their own contingency plans for meeting liquidity shortfalls, but attempts to establish coordinated contingency mechanisms, including through credit lines offered by the National Bank, have not succeeded.

23. **If Panama continues without a lender of last resort—and no compelling case has been made so far that its benefits outweigh the costs and risks—there remains a need to address the economy's vulnerability to a systemic banking crisis.** The first line of defense continues to be the reliance on market discipline and the emphasis on crisis prevention. This

implies keeping high levels of bank liquidity; monitoring banking sector developments closely with a view to early detection and prompt corrective action; and continuing to seek out and follow best practice with regard to bank regulation and oversight, including the offshore sector in order to minimize the risk of contagion. Also, maintaining a strong fiscal position, with its positive impact on market confidence, can help to limit the vulnerability of the financial system to external shocks.

24. **A second line of defense against vulnerability in the banking system is to prepare contingency plans for a systemic liquidity crisis**, however remote the probability of such a crisis would seem to be on the basis of Panama's past experience. Contingency plans might envisage a role for utilizing fiscal or BNP resources to meet emergency liquidity needs. Again, a strong fiscal position will be important, as it will provide room for official assistance if this should be needed, without compromising fiscal sustainability objectives.

25. **A third line of defense could be considered.** Credit lines from foreign banks to a public sector entity—possibly the National Bank of Panama—could be established in advance to supplement the liquidity available from the BNP in the event of a systemic liquidity crisis. This approach might entail less moral hazard than a LOLR facility whose use is not restricted to systemic crises. This option would warrant careful study, however, in view of concerns about the impact of a LOLR on market discipline; this discipline is viewed as key to maintaining a sound banking system.

Table II.1. Panama: Commercial Banks Classified by Type of License
(Number of banks; end of period)

Year	License				Total
	General	International	Representative	Public Banks	
1904	1	...	...	1	2
1961	5	1	...	2	8
1970	17	3	1	2	23
1975	42	11	2	2	57
1980	60	28	9	2	99
1985	67	38	13	2	120
1990	60	30	16	2	108
1995	59	30	13	2	104
2000	52	26	8	2	88
2002	41	28	6	2	77

Sources: National Banking Commission and Superintendency of Banks.

Table II.2. Panama: Assets and Liabilities of the International Banking Center
(In billions of balboas)

	1970	1975	1980	1985	1990	1995	2000	2002	2003
Total assets	0.8	10.3	38.4	38.9	18.4	33.9	38.0	33.1	32.3
Liquid assets	0.2	3.1	12.5	11.5	4.6	8.9	10.3	7.9	7.8
Local	0.1	0.4	1.2	1.3	1.0	2.5	3.5	1.8	1.6
Foreign	0.1	2.7	11.3	10.2	3.6	6.4	6.8	6.1	6.3
Credit	0.6	6.8	22.9	23.7	11.0	21.0	21.5	17.9	17.4
To residents	0.4	1.5	2.5	3.9	4.0	7.2	11.6	11.1	11.3
To nonresidents	0.2	5.3	20.4	19.8	7.0	13.8	9.9	6.8	6.1
Investments	...	0.1	1.6	1.6	1.2	2.3	4.3	5.5	5.4
Other assets	...	0.3	1.4	2.1	1.6	1.7	1.9	1.8	1.7
Total liabilities and capital	0.8	10.3	38.4	38.9	18.3	33.9	38.0	33.1	32.3
Deposits	0.8	9.4	33.9	31.9	14.9	26.3	16.7	17.6	18.1
From residents	0.4	0.9	2.4	3.6	4.1	9.7	10.9	12.0	12.2
From nonresidents	0.4	8.5	31.5	28.3	10.8	16.6	5.8	5.6	5.9
Bank deposits and debentures	...	0.3	2.1	2.9	1.1	3.6	16.0	10.8	9.2
Other liabilities	...	0.3	1.5	2.4	1.4	1.9	1.8	1.2	1.0
Capital and reserves	...	0.3	0.9	1.7	0.9	2.1	3.6	3.5	4.0
Memorandum item:									
Nonresidents / total deposits	52.6	90.4	92.9	88.7	72.5	63.1	34.5	32.0	32.9

Sources: National Banking Commission and Superintendency of banks.

Table II.3. Panama: Assets and Liabilities of General License Banks

(In billions of balboas)

	1975	1980 1/	1985	1990	1995	2000	2002	2003
Total assets	7.9	23.3	25.2	8.4	17.5	30.9	26.8	26.3
Liquid assets	2.0	5.7	7.6	1.7	3.3	7.5	5.7	5.5
Local	0.2	0.9	0.8	0.3	0.6	3.3	1.5	1.3
Foreign	1.8	4.8	6.8	1.4	2.6	4.2	4.2	4.2
Credit	5.6	15.8	15.2	5.1	12.1	18.4	15.3	14.9
To residents	1.2	1.9	2.0	1.4	2.3	11.6	11.1	11.3
To nonresidents	4.4	13.9	13.2	3.7	9.8	6.8	4.2	3.6
Investments	0.1	0.7	1.1	0.9	1.0	3.5	4.2	4.4
Other assets	0.2	1.1	1.3	0.7	1.2	1.5	1.6	1.6
Total liabilities and capital	7.9	23.2	25.2	8.4	17.5	30.9	26.8	26.3
Deposits	7.5	21.3	22.2	6.7	12.2	13.2	14.1	14.7
From residents	0.5	1.8	2.1	1.5	3.1	10.9	12.0	12.2
From nonresidents	7.0	19.4	20.1	5.2	9.2	2.3	2.1	2.6
Bank deposits and debentures	0.0	0.2	0.4	0.4	2.9	13.2	8.7	7.3
Other liabilities	0.2	1.3	1.6	0.8	1.4	1.4	0.9	0.9
Capital and reserves	0.2	0.5	1.0	0.5	1.0	3.2	3.0	3.4
Memorandum items:								
GLB total assets / International								
banking center assets	76.5	60.5	64.7	45.7	51.7	81.2	81.0	81.4
GLB Private Panamanian / International								
banking center assets	...	1.1	3.3	8.9	16.6	29.5	32.0	34.4

Sources: National Banking Commission and Superintendency of Banks.

1/ Refers to March 1981.

Table II.4. Panama: Bank Liquidation, Mergers, and Acquisitions 1990-2003

(In million of balboas)

Date	Banks	Total assets	Percent of GDP
Forced liquidations			
August-91	Bank of Credit and Commerce International (Overseas)	170	2.7
March-96	Banaico	134	1.5
January-02	Banco DISA	141	1.2
Voluntary liquidations			
February-90	Banco Institucional Patria de Ahorro y Préstamo	13	2.2
November-90	Union de bancos Suizos (Panama), Union Bank of Switzerland (Panamá)	0 315	 5.4
August-91	Banco Rio Internacional	1	0.0
November-91	American Express Bank (Cayman)	38	0.6
April-93	The Sumitomo Bank Limited	2	0.0
July-93	The Sakura Bank Limited	2	0.0
January-94	Banco del Comercio	14	0.2
June-97	The Bank of Tokyo-Mitsubishi	3	0.0
November-97	State Bank of India	15	0.2
September-98	The Sanwa Bank Limited	1	0.0
August-99	Republic National Bank	15	0.1
Banks' selling assets			
July-90	Lloyds Bank International Bahamas (Lloyds Bank PLC)		
December-90	Bank of America (Bancomer)	45	0.8
March-90	Banco Sudamericano de Desarrollo,S.A.(Banco del Istmo)	19	0.3
December-90	Banco Interoceanico de Panamá (Varios)	88	1.5
April-91	Banque ANVAL (Antioqueño)		
June-95	Banco Consolidado (Panama)	27	0.3
January-95	Citicorp International Bank (Citi)	1	0.0
March-95	The Hong Kong and Shanghai Banking - (HSBC)	281	3.3
November-95	Banco Provincial, S.A. Probanco- (Pribanco)	9	0.1
July-98	Chase Investment Bank Panama (Chase Manhattan Bank)	1	0.0
September-99	Banco Ganadero- (B. Bilbao)	320	2.8
September-99	Banco Real (B. Bilbao)	207	1.8
October-99	Banco FEDPA (Banco del Istmo)	52	0.5
November-99	Banco Confederado de America Latina - (Global)	224	2.0
February-00	Banco Central Hispanoamericano - (B S C H)	106	0.9
March-00	Banco Exterior,S.A. - (BBVA)	372	3.1
May-00	Banco Comercial de Panama (B. General.)	455	3.8
June-00	The Chase Manhattan Bank (HSBC)	1096	9.2
September-00	GNB Bank (Panama)- (Pasó a Lic. Internacional)	73	0.6
December-00	HSBC Bank PLC (HSBC USA.)	480	4.0
February-01	Banco Santander Central Hispano (Banco de Santander)	69	0.6
Mergers			
October-92	Towerbank Overseas con Towerbank Internacional	168	2.3
September-99	Banco Bilbao Vizcaya (Panamá) with Banco Ganadero	379	3.3
March-00	Banco Bilbao Vizcaya Panama and Banco Exterior	372	3.1
May-00	Banco Comercial de Panamá merged with Banco General	455	3.8
July-00	Banque Nationale de Paris and Paribas	244	2.0
September-01	Primer Banco del Istmo and Primer Banco de Ahorros	1259	10.4
July-02	Banco Continental de Panamá and Banco Internacional de Panama	412	3.3
September-02	Banco del Istmo and Banco de Latinoamerica	400	3.2

Sources: National Banking Commission and Superintendency of Banks.

TESTING THE STABILITY OF PANAMA'S BANKING SYSTEM: TWO EPISODES

Panama's experience in avoiding or coping with banking crisis and liquidity shortages includes two episodes that stressed the banking system and tested the stability of the financial sector. Both arise from exogenous shocks, namely the political crisis during the Noriega period and the shock created by the global slowdown and the unsettled financial markets in South America in 2001–02.

A. Noriega Period

Panama went through a period of political instability and sharp economic contraction during 1988–89, posing a severe test to the stability of the banking system. Political instability and external sanctions led to a deep banking crisis in Panama, and a cumulative decline in real GDP of 15 percent. In March 1988 the U.S. government froze official Panamanian deposits in the United States, suspended the clearing arrangement between the BNP and the Federal Reserve, and withheld payments for use of the Panama Canal.

Banking activity was curtailed by a bank holiday that began in March 1988. The National Banking Commission declared the holiday in order to halt capital flight, and extended it for nine weeks (Box). The payments system was seriously disrupted. All general license (onshore) banks were closed, but those with significant international transactions were allowed to request an international license to continue their offshore operations. Restrictions on interbank balances were partially removed after four months.

Large deposit withdrawals led to liquidity shortages and a contraction of banking system operations. Bank deposits fell by a cumulative 30 percent (11 percent of GDP) during 1988–89, resulting in a 25 percent reduction in credit to the private sector, a sharp decline in foreign assets, and a 40 percent loss of bank capital. Liquidity constraints gave rise to a secondary market in restricted deposits,¹ as banks issued certificates of deposit (CEDIs) in exchange for restricted deposits.² However, during the freeze, deposit interest accrued normally, and as a result no depositors lost money beyond the artificial reduction in interest rates.³

¹ These savings and time deposits remained subject to restrictions on withdrawals until April 1990 (see Box).

² Access to restricted deposits was allowed for the payment of taxes and debt service within the same bank.

³ Interest rates were on average 100 basis points below the prevailing LIBOR rate as the restrictions on deposits discouraged the banks from competing for new funds.

Operations of the BNP were seriously affected during the political crisis. Private sector deposits decreased by half, and private nonperforming loans reached more than 50 percent of the loan portfolio. The BNP stopped servicing its external obligations. Regulatory forbearance allowed the BNP to continue operations, since it was the only bank that provided services throughout the country through an extensive branch network.

The banking system recovered in 1990–91 without major bank failures or large fiscal costs. A new administration took office in December 1989 and adopted a set of measures to foster confidence, and bank liquidity improved markedly in 1990–91 following the U.S. release of Panamanian government funds and sizable foreign capital inflows. Private sector deposits at end-1990 were larger than the pre-banking crisis peak in 1986. The recovery of credit to the private sector started slowly in 1990 and picked up significantly in 1991, as economic activity rebounded.

A number of points emerge from the Noriega episode:

- Three bank closures led to depositor losses but did not precipitate a crisis of confidence in the banking system.
- The banking crisis did not have direct fiscal costs.
- The BNP is no stronger than the government finances backing the institution. Private banks, on the other hand, were able to tap international support to service their obligations.

B. Regional Financial Market Turbulence and Banking System Stress

The banking system weathered the global economic slowdown and the unsettled financial markets in South America in 2001–02. Concern about the exposure of the Panamanian banking system to Argentina and Brazil led to an 18 percent drop in deposits and other funding sources over the two years to December 2003. Most of the drop was in deposits from nonresidents, as foreign interbank deposits decreased by 36 percent during the period (Figure II.1). In response, banks reduced credit to nonresidents (mainly in Argentina and Brazil) by 43 percent over the same period. Such a large contraction was possible because a significant share of the credit granted by Panamanian banks is short-term financing.

Balance-sheet downsizing was concentrated in foreign-owned banks, which are specialized in foreign lending; foreign operations of domestic banks are a minor component of their loan portfolio (Figure II.1). The bank with the largest exposure in South America is Bladex, a supranational commercial bank specializing in trade finance to the region. To cope with its problems in Argentina, Bladex sold most of its assets in that country and raised its equity by more than 60 percent or US\$147 million in June 2003. Its unweighted capital-asset ratio rose from 9 percent at end-2001 to 22 percent at end-September 2003.

The shock to the banking system arising from South America had a limited effect on bank performance indicators (Annex Tables II.1–II.4). Banks are now well capitalized with a risk-weighted capital adequacy ratio of more than 17 percent on average. Banking system liquidity decreased in 2001–02 but as of end-November 2003 the liquid assets-to-deposits ratio averaged 28 percent, and the liquidity ratio that includes marketable securities exceeded 40 percent for both foreign and domestic banks.

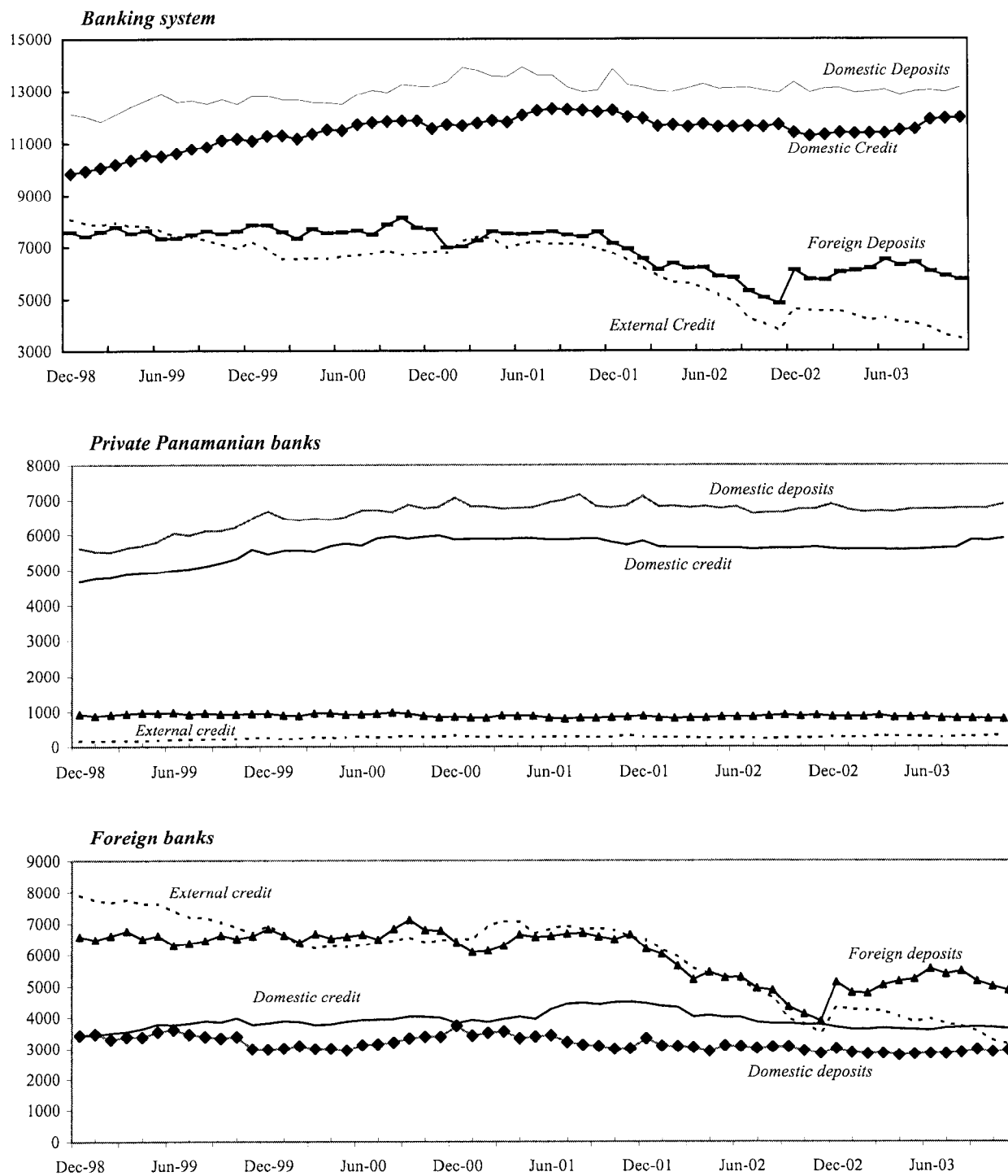
Domestic deposit interest rates trended downward following the interest rate path in the major financial centers since 2000 (Figure II.2). Foreign banks lowered deposit interest rates faster than private Panamanian banks up to mid 2002 when Bladex's exposure in South America became known. After the re-capitalization of Bladex in mid 2003 the foreign banks spread over Libor diminished significantly.

The banking system's resilience to recent external shocks reflects a strong institutional framework and sound management of the banks. The upgrade in the regulatory system since 1999 strengthened the banking system to withstand external financial turmoil without a major disruption. Ample bank liquidity at the onset of the shock also helped maintain confidence. This favorable setting was aided by a downward trend in international interest rates that enabled banks to increase profit margins. Combined with administrative cost reductions and an increase in non-interest income the return on assets and equity in Panamanian banks rose above their 2000 level. The business specialization helped limit the transmission of the external shock to the domestic system as banks with large exposures in South America had little domestic business.

Box. Major Changes in Banking Legislation During 1988-90

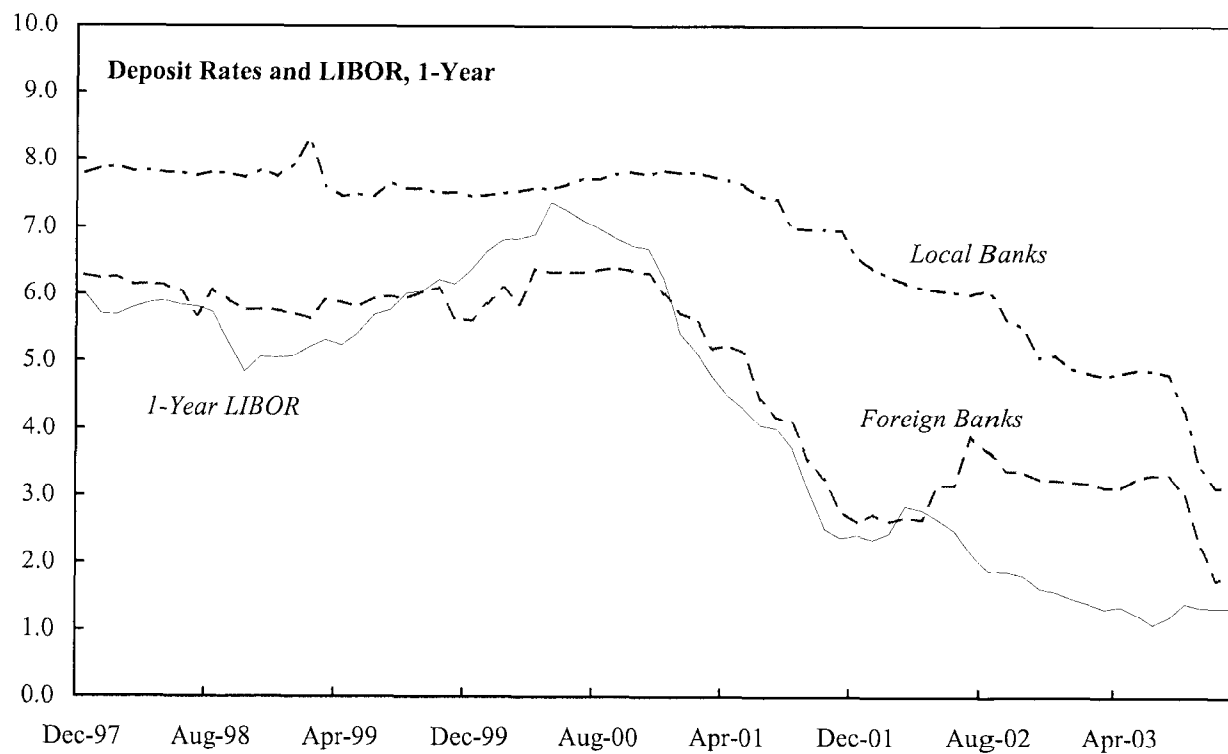
Date	Measure	Date	Measure
1988			
Mar. 8	General license banks were closed.	Jul. 4	Available demand deposit balances were increased to 40 percent of the balance as of March 3, 1988, to a maximum of B 20,000.
Mar. 22	General license banks with significant offshore operations were permitted to request an additional international license to continue their offshore operations during the bank holiday.	Jul. 18	Available demand deposit balances were increased to 50 percent, up to a maximum of B 50,000.
	Checks and money orders drawn on demand deposits (at general license banks) payable to the National Treasury were permitted to be cashed without restrictions.	Aug. 18	Restrictions on 50 percent of interbank deposit balances (which had been frozen since March 4, 1995) were removed.
	Withdrawal restrictions that were to be in effect in the event of the reopening of banks were agreed upon.	Dec. 1	Monthly withdrawals on savings deposits were raised from a maximum of B 50 per month to 10 percent of the balance outstanding as of March 31, 1988, up to a maximum of B 100 per month. Except for withdrawals in December 1988, all withdrawals required a written request 30 days in advance. This applied to all banks except the public banks (BNP and Savings Bank) where monthly withdrawals on savings deposits were limited to 5 percent of the balance as of March 3, 1988 up to a maximum of B 50 per month.
	Withdrawals of 25 percent of the balance as of March 3, 1988, up to B 10,000, were permitted for demand deposits.		
	Withdrawals on savings deposits (excluding Christmas savings plans) were limited to a maximum of B 50 a month.		
	Time deposits were frozen.		
	Frozen deposit balances could be used to discharge obligations to the bank holding the deposit.	1989 Jan. 1	Demand deposits were freed of restrictions on withdrawals.
		1990 Apr. 25	Savings deposits were freed of restrictions of withdrawals.
Apr. 18	Banks were allowed to reopen to receive deposits only.		
May 9	Banks were allowed to resume all normal banking activities, with the restrictions listed above on withdrawals.	Jul. 10	Time deposits were freed of restrictions on withdrawals.

Figure II.1. Panama: Credit and Deposits in the Panamanian Banking System, 1998–2003
(In millions of U.S. dollars)



Source: Superintendency of Banks.

Figure II.2. Panama: Deposit Rates, 1997-2003
(In percent)



Sources: Superintendency of Banks.

Annex Table II.1. Panama: Financial Soundness Indicators of Private Panamanian Banks under General License

(Percentages, end of period)

	1996	1997	1998	1999	2000	2001	2002	Sep. 2003
Capital adequacy								
Ratio of capital to risk-weighted assets	..	..	..	11.3	13.5	13.6	14.5	17.6
Asset quality								
Total loans to total assets	61.1	57.6	56.1	55.1	55.1	55.5	56.5	57.5
Credit to nonresidents as percentage of total loans	4.6	5.3	3.6	4.4	5.2	4.4	4.6	4.8
Credit to financial institutions as percentage of total loans	3.0	3.4	2.7	3.0	2.9	2.5	2.9	3.1
Credit to the resident private sector as percentage of total loans	95.4	94.7	96.4	95.6	94.8	95.6	91.6	95.3
Ratio of nonperforming loans to total loans	1.3	1.4	2.7	1.9	2.1	2.6	3.6	2.9
Provision coverage								
Ratio of provisions to total loans	0.7	1.0	1.2	1.3	1.7	2.5	2.4	2.3
Ratio of provisions to nonperforming loans	53.1	66.7	43.4	66.7	81.1	95.6	68.1	79.8
Ratio of housing and construction to total loans	34.2	32.2	30.9	29.8	31.8	32.7	26.3	33.4
Ratio of commerce to total loans	37.5	37.9	40.2	37.0	32.4	31.1	31.7	25.7
Earnings, expenses and profitability								
Pre-tax return to average equity	18.3	15.7	16.0	12.5	11.7	10.2	15.4	15.3
Pre-tax return to average total assets	1.4	1.3	1.4	1.1	1.1	1.0	1.8	1.9
Ratio of administrative expenses to total assets	1.5	1.4	2.0	2.2	2.1	2.4	2.3	2.2
Average interest margin	4.0	3.7	4.5	3.3	3.2	3.5	4.0	4.1
Liquidity								
Liquid assets to total assets	24.1	23.9	24.4	22.4	21.7	18.2	15.3	12.0
Liquid assets to short-term liabilities	136.7	125.7	137.8	99.7	99.0	78.7	66.1	60.3
Liquid domestic assets in banks as percentage of total assets	11.1	10.3	10.9	11.1	12.0	8.9	5.8	4.9
Liquid external assets in banks as percentage of total assets	13.1	13.6	13.5	11.3	9.7	9.2	9.4	7.1
Deposits to total liabilities 1/	90.2	87.5	83.5	81.0	78.3	81.5	83.5	81.3
Domestic deposits to total liabilities	74.9	71.6	71.6	71.0	69.8	72.5	74.1	72.5
Domestic bank deposits to total liabilities	7.2	6.2	9.0	11.4	10.8	6.3	4.9	3.7
Foreign deposits to total liabilities	15.4	15.9	11.9	10.1	8.5	9.0	9.4	8.8
Foreign bank deposits to total liabilities	7.0	8.8	6.2	5.6	4.5	3.7	3.5	3.3
Ratio of domestic loans to deposits	70.2	68.0	71.2	71.4	73.9	72.7	73.4	77.3
Ratio of loans to non residents to deposits	3.4	3.8	2.7	3.3	4.0	3.4	3.6	3.9
Ratio of liquid assets to deposits	29.0	29.9	32.1	30.4	30.7	24.9	20.8	16.9
Contingent and off-balance sheet accounts								
Contingent and off-balance sheet accounts as percentage of total assets	7.2	6.7	5.2	6.0	4.9	7.2	13.4	12.4
Memorandum items:								
Total loans as percentage of GDP	40.1	43.5	46.6	52.6	55.3	54.3	52.8	..
Total deposits as percentage of GDP	54.5	60.6	63.1	70.5	70.9	71.3	68.6	..
Nominal GDP (In millions of U.S. dollars)	9,154	9,730	10,935	11,391	11,938	12,059	12,296	..

Source: Superintendency of Banks.

1/ Liabilities comprise deposits and other liabilities, including debentures.

Annex Table II.2. Panama: Financial Soundness Indicators of Foreign Owned Banks under General License

(Percentages, end of period)

	1996	1997	1998	1999	2000	2001	2002	Sep. 2003
Capital adequacy								
Ratio of capital to risk-weighted assets	..	..	..	9.8	17.2	17.9	22.5	20.6
Asset quality								
Total loans to total assets	66.0	65.7	72.1	71.9	66.7	70.1	68.1	65.5
Credit to nonresidents as percentage of total loans	79.5	78.1	69.7	64.5	63.0	59.3	53.9	49.0
Credit to financial institutions as percentage of total loans	1.6	1.8	4.9	7.1	5.9	8.2	8.8	8.2
Credit to the resident private sector as percentage of total loans	20.3	21.8	30.2	35.3	36.9	40.7	50.3	49.5
Ratio of nonperforming loans to total loans	0.7	0.7	1.2	1.8	1.2	2.7	2.6	2.2
Provision coverage								
Ratio of provisions to total loans	1.6	1.6	1.5	2.1	2.0	2.4	6.8	5.3
Ratio of provisions to nonperforming loans	247.4	234.1	120.9	116.3	163.7	89.8	267.4	235.1
Ratio of housing and construction to total loans	3.3	3.7	4.5	5.3	5.9	6.3	7.8	10.0
Ratio of commerce to total loans	10.0	10.5	12.7	14.4	16.7	16.6	20.8	19.0
Earnings, expenses and profitability								
Pre-tax return to average equity	17.8	12.6	15.7	14.9	12.5	7.9	-13.8	24.8
Pre-tax return to average total assets	1.1	0.9	1.3	1.4	0.8	0.7	-1.5	2.6
Ratio of administrative expenses to total assets	0.7	0.7	1.2	1.5	1.4	1.8	2.7	2.5
Average interest margin	2.5	2.4	2.9	2.8	2.8	2.9	2.9	3.5
Liquidity								
Liquid assets to total assets	21.1	22.2	17.9	18.3	20.8	17.3	20.7	22.8
Liquid assets to short-term liabilities	102.8	126.3	81.3	92.4	103.5	70.8	100.9	139.2
Liquid domestic assets in banks as percentage of total assets	3.4	3.2	3.8	4.5	5.1	2.5	3.1	3.1
Liquid external assets in banks as percentage of total assets	17.7	19.0	14.1	13.8	15.8	14.8	17.6	19.8
Deposits to total liabilities 1/	70.6	74.7	70.0	71.9	72.0	67.1	76.5	83.9
Domestic deposits to total liabilities	17.4	18.7	24.0	21.8	26.6	23.5	28.2	30.6
Domestic bank deposits to total liabilities	8.3	8.8	10.7	8.4	11.2	6.9	6.1	6.4
Foreign deposits to total liabilities	53.2	56.1	46.0	50.1	45.4	43.6	48.2	53.2
Foreign bank deposits to total liabilities	36.0	40.5	35.0	38.8	32.3	33.1	33.5	32.1
Ratio of domestic loans to deposits	20.5	20.8	34.3	39.0	37.8	46.8	45.5	45.6
Ratio of loans to non residents to deposits	79.7	74.0	78.8	70.8	64.4	68.1	53.1	43.8
Ratio of liquid assets to deposits	32.0	32.0	28.0	28.0	31.9	28.3	29.9	31.2
Contingent and off-balance sheet accounts								
Contingent and off-balance sheet accounts as percentage of total assets	15.2	18.2	14.8	16.5	24.3	16.4	16.3	14.1
Memorandum items:								
Total loans as percentage of GDP	126.2	126.8	108.9	99.1	92.2	97.2	70.7	...
Total deposits as percentage of GDP	125.9	133.7	96.3	90.3	90.2	84.6	71.8	...
Nominal GDP (In millions of U.S. dollars)	9,154	9,730	10,935	11,391	11,938	12,059	12,296	...

Source: Superintendency of Banks.

1/ Liabilities comprise deposits and other liabilities, including debentures.

Annex Table II.3. Panama: Financial Soundness Indicators of Public Banks

(Percentages, end of period)

	1996	1997	1998	1999	2000	2001	2002	Sep. 2003
Capital adequacy								
Ratio of capital to risk-weighted assets	..	..	..	..	..	..	..	27.3
Asset quality								
Total loans to total assets	45.3	41.9	41.5	43.1	44.8	43.4	46.7	53.7
Credit to nonresidents as percentage of total loans	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0
Credit to financial institutions as percentage of total loans	0.2	0.1	0.1	0.7	1.2	2.5	0.7	0.7
Credit to the resident private sector as percentage of total loans	36.5	36.7	40.0	50.0	60.6	68.2	71.6	72.4
Ratio of nonperforming loans to total loans	0.3	0.4	0.3	1.5	0.5	4.1	7.0	5.2
Provision coverage								
Ratio of provisions to total loans	2.9	3.0	2.8	2.7	2.3	2.7	2.5	2.5
Ratio of provisions to nonperforming loans	...	...	...	181.5	466.7	65.0	35.6	48.3
Ratio of housing and construction to total loans	18.3	19.5	20.2	21.1	23.1	27.0	31.2	31.2
Ratio of commerce to total loans	2.2	2.6	2.6	3.2	4.6	8.1	11.8	13.7
Earnings, expenses and profitability								
Pre-tax return to average equity	32.2	12.3	13.5	18.0	20.7	13.5	18.3	15.1
Pre-tax return to average total assets	3.6	1.6	1.9	2.6	3.0	1.9	2.5	2.1
Ratio of administrative expenses to total assets	1.1	1.1	1.7	1.4	1.6	1.6	1.9	1.9
Average interest margin	11.2	5.3	6.8	7.7	8.3	6.7	7.3	5.9
Liquidity								
Liquid assets to total assets	43.9	52.2	50.3	47.3	44.3	41.1	36.7	31.9
Liquid assets to short-term liabilities	276.6	395.9	369.2	184.8	179.2	165.5	210.5	188.1
Liquid domestic assets in banks as percentage of total assets	28.0	26.0	29.1	29.9	29.0	19.0	12.5	7.6
Liquid external assets in banks as percentage of total assets	15.9	26.1	21.2	17.4	15.3	22.1	24.2	24.3
Deposits to total liabilities 1/	87.9	88.3	87.1	87.4	87.3	88.2	90.2	89.9
Domestic deposits to total liabilities	86.6	87.0	85.8	86.1	86.1	87.0	89.0	88.7
Domestic bank deposits to total liabilities	8.9	8.1	7.8	8.3	8.4	7.5	6.1	4.9
Foreign deposits to total liabilities	1.3	1.3	1.4	1.3	1.2	1.2	1.2	1.2
Foreign bank deposits to total liabilities	0.9	0.9	0.9	0.9	0.7	0.6	0.7	0.6
Ratio of domestic loans to deposits	58.9	54.5	55.7	57.3	60.0	57.0	60.0	69.8
Ratio of loans to non residents to deposits	0	0	0	0.2	0	0	0	0
Ratio of liquid assets to deposits	57.1	68.0	67.5	62.9	59.3	53.9	47.1	41.4
Memorandum items:								
Total loans as percentage of GDP	18.5	17.6	16.6	16.8	16.7	17.4	18.5	...
Total deposits as percentage of GDP	31.5	32.3	29.7	29.3	27.8	30.5	30.8	...
Nominal GDP (In millions of U. S. dollars)	9,154	9,730	10,935	11,391	11,938	12,059	12,296	...

Source: Superintendency of Banks

1/ Liabilities comprise deposits and other liabilities including debentures.

Annex Table II.4. Panama: Financial Soundness Indicators of International License Banks

(Percentages, end of period)

	1996	1997	1998	1999	2000	2001	2002	Sep. 2003
Capital adequacy								
Ratio of capital to risk-weighted assets	..	..	..	..	..	..	..	10.5
Asset quality								
Total loans to total assets	58.2	49.0	60.2	48.5	43.6	44.1	41.4	46.9
Credit to financial institutions as percentage of total loans	0	0	0	0	0	0	0	0
Ratio of nonperforming loans to total loans	2.3	2.8	1.4	1.5	2.6	2.7	2.2	1.3
Provision coverage								
Ratio of provisions to total loans	0.7	1.2	0.7	1.2	2.5	3.0	2.3	2.2
Ratio of provisions to nonperforming loans	31.6	42.6	52.7	83.4	97.6	112.0	106.9	141.5
Earnings, expenses and profitability								
Pre-tax return to average equity	34.1	20.2	20.9	25.2	16.4	20.9	20.4	19.0
Pre-tax return to average total assets	1.6	1.1	1.0	1.1	0.8	1.2	1.4	1.6
Ratio of administrative expenses to total assets	0.5	0.9	0.7	1.0	1.0	1.5	2.0	2.8
Average interest margin	2.5	2.6	2.5	2.2	2.6	2.5	2.6	2.1
Liquidity								
Liquid assets to total assets	33.8	38.3	27.0	33.6	38.7	32.9	34.5	32.2
Liquid assets to short-term liabilities	596.1	593.7	255.1	271.6	304.9	168.3	138.7	203.0
Liquid domestic assets in banks as percentage of total assets	2.8	2.6	1.6	1.0	1.9	1.9	3.8	4.8
Liquid external assets in banks as percentage of total assets	31.0	35.7	25.4	32.6	36.9	31.0	30.7	27.4
Deposits to total liabilities 1/	33.8	38.2	28.2	35.2	41.0	35.0	80.2	80.0
Domestic deposits to total liabilities								
Domestic bank deposits to total liabilities	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Foreign deposits to total liabilities	92.4	91.1	92.1	89.4	85.9	85.9	80.1	79.9
Foreign bank deposits to total liabilities	54.6	51.7	47.3	40.8	34.2	35.2	21.3	15.7
Ratio of domestic loans to deposits								
Ratio of loans to non residents to deposits	62.9	53.8	68.2	56.9	53.7	54.5	56.2	66.2
Ratio of liquid assets to deposits	36.6	42.0	30.6	39.4	47.7	40.7	46.8	45.5
Memorandum items:								
Total loans as percentage of GDP	39.9	33.2	46.8	33.4	27.9	27.5	23.4	...
Total deposits as percentage of GDP	23.2	25.9	21.0	23.1	24.8	20.5	41.7	...
Nominal GDP (In millions of U.S. dollars)	9,154	9,730	10,935	11,391	11,938	12,059	12,296	...

Source: Superintendency of Banks.

1/ Liabilities comprise deposits and other liabilities, including debentures.

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Panama: Summary of the Tax System as of September 30, 2003 1/			
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates
<p>1. Income Tax (<i>Impuesto sobre la Renta</i>)</p> <p>Individuals and corporations receiving income earned from carrying out productive activities (including the rendering of services) within the territory of the Republic of Panama.</p> <p>Public sector institutions and private firms are required to withhold income tax at the source (payroll and dividend taxes).</p>	<p>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 constant rate.</p> <p>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). Expenses that cannot be clearly attributed to taxable, exempt, or external incomes are deductible according to the composition of the income stream (proportionality rule).</p> <p>Special regimes apply to:</p> <p>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.</p>	<p>A. Types of income:</p> <p>a. Compensation received in connection with occupational accidents and insurance policies in general; pensions and other benefits received through the Social Security Agency.</p> <p>b. Income earned from international maritime operations carried out by merchant ships registered in Panama.</p> <p>c. Inheritances, legacies, and grants.</p> <p>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 governments; interest paid to foreign and domestic investors, provided the capital is earmarked for construction of low-income housing and the loan is guaranteed by foreign governments.</p>	<p>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. Annual net incomes below B 10,400 are exempt from the income tax.</p> <p>Corporate: Legal entities pay a proportional rate of 30 percent on taxable net income (if they are listed in the <i>Registro Industrial</i>, 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). The corporate tax rate is scheduled to decrease to 29 percent in 2005 and further to 28 percent from 2007 onward. In accordance with the tax rate reduction, tax incentives for investment in priority sectors will be gradually phased out until 2007.</p>
	<p>b. Income gains from the sale of real estate: A special property sales tax, which is due at the date of the transaction, serves as an advance payment on the income tax on real estate sales gains, which will become due at the end of the fiscal period.</p>	<p>d. 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.</p>	

Panama: Summary of the Tax System as of September 30, 2003 1/			
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates
	<p>Tax base:</p> <p>(i) The value of the property at the time of the transfer; or</p> <p>(ii) the land registry value indexed by 5 percent for each year of ownership; or</p> <p>(iii) the land registry value indexed by 10 percent for each year of ownership.</p> <p>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.</p> <p>c. Incomes generated by artists and Professionals on occasional visits: taxed at a rate of 15 percent.</p> <p>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.</p>	<p>e. Premiums in respect of re-insurance operations relating to risks and persons situated abroad.</p> <p>f. Prizes and other benefits obtained from games of chance administered by the government.</p> <p>g. Royalties <i>[regalías]</i> paid to persons abroad by persons established in the Colón Free Zone.</p> <p>h. Remuneration paid to accredited diplomatic personnel in Panama and to consular personnel provided reciprocal arrangements are in effect.</p>	
	<p>e. Transport 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.</p>	<p>B. Tax-exempt persons or entities:</p> <p>a. Firms or individuals exempted under the terms of public treaties or by contracts authorized or approved by Law.</p>	

Panama: Summary of the Tax System as of September 30, 2003 1/			
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates
	<p>f. Telecommunications enterprises: A global ratio of 50 percent of income is considered domestic and taxable for those enterprises selling international services.</p>	<p>b. The State, municipalities and autonomous or semi-autonomous state institutions.</p> <p>c. Churches, seminaries, and religious associations, provided their incomes derive directly from the respective activities.</p>	
	<p>g. Exhibition companies and film distributors: pay an income tax rate of 6 percent.</p> <p>h. Tax on dividends: is withheld by the firm that pays out the dividends. The tax rate withheld 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.</p>	<p>d. Shelters, hospices, and charities in general, provided that their revenues are allocated exclusively for social assistance or public welfare.</p> <p>e. Individuals and corporations engaged in agriculture with an annual gross income of less than B/. 100,000.</p> <p>f. Trusts established for the purpose of administering private pension funds.</p> <p>g. Cooperatives.</p>	
	<p>h. Complementary tax (<i>impuesto complementario</i>): an advance payment on the income tax that becomes due when the distribution of earnings or dividends during the fiscal period 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.</p>		

Panama: Summary of the Tax System as of September 30, 2003 1/			
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates
2. PROPERTY TAX 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: a. Value set by the Ministry of Finance and Cadastral Directorate. b. The price negotiated in the sale. c. The assessed value in a succession.	Property improvements for residential and certain commercial uses, with the duration of the exemption (as measured in years) inversely proportional to the value of the improvements.	In case the property value is: a. B 20,000 –50,000: 1.75 percent. b. B 50,001–75,000: 1.95 percent; and c. From B 75,001 and upwards: 2.1 percent.
3. COMMERCIAL AND INDUSTRIAL LICENSE TAX 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. Tax base: The firm's total taxable capital (assets minus liabilities).	a. Agricultural activities. b. Manufacturing and sale of crafts and other manual domestic or cottage industries.	Two percent of the capital of the firm, with a minimum of B 100 and a maximum of B 40,000.
4. STAMP TAX Individual and corporations conducting taxable financial or legal transactions.	To impose a levy on all documents that bestows a legal status on a transaction. Tax base: The value of stamps applied to legal documents depends on the nature and type of the document and the value of the underlying transaction.	Offshore operations of banks; trading companies and companies operating in the Colón Free Zone.	a. Bills and receipts on leasing and rental fees, other services, and collateral must be stamped at a rate of B 0.01—0.02 for each B 100.00 or fraction thereof. b. All checks, certain legal submissions, sales invoices, and other documents and contracts must be stamped at a rate of B 0.10 for each B 100.00 or fraction thereof.

Panama: Summary of the Tax System as of September 30, 2003 1/				
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates	
5. INHERITANCE AND GIFT TAX 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.	
6. VALUE-ADDED TAX <i>(Impuesto sobre la transferencia de bienes corporales muebles y la prestación de servicios—ITBMS)</i> The transferor, whether merchant, producer, importer, service provider, or lessor, etc.	Tax base: a. Imports—the c.i.f. value, plus all taxes, duties, fees, assessment, or charges (for customs purposes) levied on imports. b. The provision of services through which raw materials are converted into a finished or semi-finished product. c. The provision of any other type of services, with exception of services with a purely personal and private character. d. The invoiced value of the lease of movable assets, or failing that, the value of the contract.	a. Sales of unprocessed agricultural, livestock (including poultry) and fish products. b. Exports and re-exports. c. Transfer of movable tangible assets, if affected in free trade zones established in the Republic of Panama. e. Operations affecting movable tangible assets located in areas under customs control. f. Transfers and imports of carbonated beverages, fuel, and lubricants in general, food items, pharmaceuticals, and medicinal products. g. Imports and transfers of inputs used in animal husbandry and agriculture. h. School supplies.	The general rate is 5 percent applicable to the tax base in each case, with special rates of 10 y 15 percent on sales of alcoholic beverages and cigarettes.	

Panama: Summary of the Tax System as of September 30, 2003 1/				
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates	
		<p>i. Sales by producers and providers of services with average monthly revenues of less than balboas 3,000 or annual revenues of less than balboas 36,000.</p> <p>i. Basic social services of particular importance for low income groups (health services, transportation, education, electricity, fixed-line telephony).</p>		
7. IMPORT DUTIES Any individual or corporation importing goods liable to taxation.	All goods or merchandise liable for tax that imported into Panama. 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.	<p>a. Imports into the Colón Free Zone and other export processing zones.</p> <p>b. Imports of equipment by the mining sector.</p> <p>c. Imports of equipment for tourism in designated special tourist zones.</p>	<p>a. Depending upon the tariff applied: 0-40 percent for industrial products; 0-50 percent for agro industrial products; and 0-60 percent for agricultural products.</p> <p>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.</p>	
8. EXPORT DUTIES Individuals or corporations exporting products abroad.	Tax base: Weight or value.		<p>a. Precious metals (silver, gold, and platinum): 1 percent of export value.</p> <p>b. Scrap metals: B 4.00—24.00 per metric ton.</p> <p>c. Raw sugar extract: B 1.00 per ton.</p>	

Panama: Summary of the Tax System as of September 30, 2003 1/				
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates	
9. SELECTIVE CONSUMPTION TAX (Excise Tax) Consumers.	Tax base: a. For domestically produced beverages and luxury items: sales price. b. For imported beverages and luxury goods: c.i.f. value, plus all taxes, duties, assessments, or charges applicable to imports. b. For domestic or foreign spirits: each degree of alcoholic strength, domestic or foreign beers each liter. c. For cigarettes: per pack sold.	a. Sales for export. 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. c. Alcohol for use in industrial production.	a. Carbonated beverages: domestically produced or imported (5 percent), syrups, or concentrate used in the production of carbonated beverages (6 percent). b. Luxury items (motor vehicles, jewellery, fire arms, and other items): 5 percent of value. c. International telephone and telegram services, cable, satellite, and wireless phone services: 5 percent of value. d. Spirits—B 0.035 per degree of alcohol content per liter; wines—B 0.05 per liter; beer—B 0.1325 per liter. e. Cigarettes—32.5 percent of the consumer sales price.	
10. SUGAR PRODUCTION TAX Companies producing sugar in Panamá.	Tax base: Hundredweight of sugar produced.		The tax rate is B 0.25 per hundredweight.	
11. FUEL CONSUMPTION TAX (Excise Tax) Consumers of fuel, when used to engage in primary, secondary, or tertiary activities.	Tax base: Amounts per gallon of fuel consumed.	Subsidized liquefied gas in 25-pound containers.	B 0.60 per gallon of gasoline, 0.25 per gallon of diesel, 0.15 per gallon of fuel oil, 0.13 per gallon of kerosene, 0.08 per gallon of asphalt.	

Panama: Summary of the Tax System as of September 30, 2003 1/				
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates	
12. GAMBLING TAX Companies and entities operating, organizing, and administering gambling activities.	Tax base: The difference between the value of bets and premiums distributed.	Sporting events in Panama are exempt.	1.5 percent on the tax base.	
12. TAX ON UNUSED LAND 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.	<ul style="list-style-type: none"> a. Those portions of land containing forests that are being cultivated to an adequate extent. b. Those portions of land containing sawmill, mine works, or operations of workable reserves or deposits of all kinds. c. Portions of land that is barren or unusable for cultivation, such as marshes, mangrove swamps, or sandbanks. 	The tax is B 1.50 per annum for each uncultivated hectare.	
13. TAX ON BANKS, FINANCIAL INSTITUTIONS, AND EXCHANGE HOUSES Owner or representative of banks, exchange houses, and financial institutions (financieras).	Tax base: The tax is levied on basis of the value of the institution's assets, depending also on the type of banking license.	<ul style="list-style-type: none"> a. State-owned banks are exempt from the tax. b. Newly established banking institutions pay 50 percent of the tax in their first year of operations. 	<ul style="list-style-type: none"> a. Banking institutions carrying a general license pay taxes ranging from B 50,000—350,000, with the lower limit being applicable to banks with a value of assets up to B 100 million, and the upper limit to banks with a value of assets of more than B 1000 million. b. The tax for banking institutions with an international license is B 50,000. 	

Panama: Summary of the Tax System as of September 30, 2003 1/				
Taxpayer	Tax Base/Description	Deductions/Exemptions	Rates	
			<p>c. The tax for development banks and microfinance institutions is B 15,000.</p> <p>d. The tax for exchange houses is B 2,500.</p>	
<p>14. TAX ON INSURANCE PREMIUMS (Excise Tax)</p> <p>Any individual or corporation taking out insurance policies against risks or fire, and renewals of such policies in the Republic of Panama.</p>	<p>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.</p>	<p>State agencies and fire insurance agencies and companies are exempt.</p>	<p>a. 2 percent for all insurance sold in Panama.</p> <p>b. An additional 5 percent on fire insurance premiums, the proceeds of which are earmarked for the national fire brigades.</p> <p>c. An additional 5 percent on all non-fire insurance policies.</p>	
<p>15. TAX ON INSURANCE ENTERPRISES</p> <p>Enterprises selling insurance.</p>	<p>Tax base: The value of the total assets of insurance enterprises as at December 31 of each year.</p>	<p>State-owned insurance entities are exempt.</p>	<p>Enterprises with assets in excess of balboas 10 million (B 25,000); enterprises with assets in the range of balboas 5 million—9,999,999 million (B 20,000); and enterprises with assets of less than balboas 5 million (B 10,000).</p>	
<p>16. FRANCHISE TAX (<i>Tasa Unica</i>)</p> <p>All companies and juridical persons with private interests in Panama.</p>	<p>The franchise tax is levied on every corporation listed in the Public Register.</p> <p>Tax base: Flat rate.</p>		<p>Annual rate of B 250.</p>	

1/ Excluding some minor municipal taxes. B = Panamanian balboas.

Table 1. Panama: National Accounts by Productive Activity

	1997	1998	1999	2000	2001	2002
(In millions of balboas at 1996 prices)						
Gross domestic product at market prices	9,571	10,399	10,841	11,197	11,235	11,319
Primary sector	724	742	799	851	847	828
Agriculture	668	672	712	773	771	756
Mining	56	70	87	78	77	72
Secondary sector	1,371	1,501	1,522	1,531	1,376	1,282
Manufacturing	1,007	1,051	1,012	938	863	821
Construction	363	449	511	593	513	462
Services	7,060	7,635	8,009	8,379	8,539	8,716
Public utilities	303	294	284	311	316	340
Commerce, restaurants, and hotels	1,622	1,767	1,886	1,798	1,852	1,924
Colon Free Zone wholesale	724	703	601	663	677	677
Restaurants and hotels	214	216	228	241	275	323
Other	684	849	1,057	894	900	925
Transport and communications	1,233	1,457	1,643	1,786	1,819	1,880
Panama Canal Authority	614	642	656	677	669	689
Other transport and comm.	619	815	987	1,109	1,150	1,191
Financial intermediation	867	948	1,003	1,166	1,145	1,137
Housing	1,519	1,592	1,624	1,686	1,684	1,662
Public administration	1,014	1,039	992	1,067	1,129	1,171
Other services	501	537	578	565	596	602
Plus: import taxes	301	339	334	337	309	313
Plus: Other taxes minus subsidies	396	496	541	515	539	520
Less: imputed banking services	280	313	365	416	375	340
(Percent change)						
Gross domestic product at 1996 market prices	4.6	8.7	4.2	3.3	0.3	0.8
Primary sector	6.5	2.4	7.7	6.5	-0.4	-2.3
Agriculture	3.1	0.6	6.0	8.6	-0.3	-1.9
Mining	75.8	24.5	24.3	-10.4	-1.0	-6.0
Secondary sector	5.2	9.5	1.5	0.6	-10.2	-6.8
Manufacturing	3.9	4.4	-3.7	-7.3	-8.0	-4.9
Construction	9.0	23.7	13.6	16.1	-13.5	-10.0
Services	3.8	8.1	4.9	4.6	1.9	2.1
Public utilities	2.6	-2.8	-3.5	9.4	1.6	7.7
Commerce, restaurants, and hotels	0.9	9.0	6.7	-4.6	3.0	3.9
Colon Free Zone wholesale	16.4	-2.9	-14.5	10.4	2.0	-5.6
Restaurants and hotels	14.0	0.8	5.7	5.7	14.1	17.5
Other	-14.3	24.1	24.5	-15.4	0.7	6.9
Transport and communications	9.0	18.2	12.8	8.7	1.8	3.3
Panama Canal Authority	-1.5	4.5	2.2	3.2	-1.2	3.0
Other transport and comm.	21.8	31.7	21.1	12.4	3.7	3.5
Financial intermediation	6.7	9.4	5.7	16.3	-1.9	-0.7

Table 1. Panama: National Accounts by Productive Activity (Concl.)

	1997	1998	1999	2000	2001	2002
(Percent change)						
Housing	1.8	4.8	2.1	3.8	-0.1	-1.3
Public administration	-0.9	2.4	-4.5	7.6	5.8	3.8
Other services	14.2	7.2	7.5	-2.3	5.5	1.0
Plus: Other taxes minus subsidies	6.1	25.2	9.2	-4.8	4.6	-3.5
Less: imputed banking services	5.5	11.8	16.6	14.2	-9.9	-9.3
(Percent distribution)						
Gross domestic product at 1996 market prices	100.0	100.0	100.0	100.0	100.0	100.0
Primary sector	7.6	7.1	7.4	7.6	7.5	7.3
Agriculture	7.0	6.5	6.6	6.9	6.9	6.7
Mining	0.6	0.7	0.8	0.7	0.7	0.6
Secondary sector	14.3	14.4	14.0	13.7	12.2	11.3
Manufacturing	10.5	10.1	9.3	8.4	7.7	7.2
Construction	3.8	4.3	4.7	5.3	4.6	4.1
Services	73.8	73.4	73.9	74.8	76.0	77.0
Public utilities	3.2	2.8	2.6	2.8	2.8	3.0
Commerce, restaurants, and hotels	16.9	17.0	17.4	16.1	16.5	17.0
Colon Free Zone wholesale	7.6	6.8	5.5	5.9	6.0	6.0
Restaurants and hotels	2.2	2.1	2.1	2.2	2.4	2.9
Other	7.1	8.2	9.7	8.0	8.0	8.2
Transport and communications	12.9	14.0	15.2	16.0	16.2	16.6
Panama Canal Authority	6.4	6.2	6.1	6.0	6.0	6.1
Other transport and comm.	6.5	7.8	9.1	9.9	10.2	10.5
Financial intermediation	9.1	9.1	9.3	10.4	10.2	10.0
Housing	15.9	15.3	15.0	15.1	15.0	14.7
Public administration	10.6	10.0	9.1	9.5	10.0	10.3
Other services	5.2	5.2	5.3	5.0	5.3	5.3
Plus: import taxes	3.1	3.3	3.1	3.0	2.7	2.8
Plus: Other taxes minus subsidies	4.1	4.8	5.0	4.6	4.8	4.6
Less: imputed banking services	2.9	3.0	3.4	3.7	3.3	3.0

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

Table 2. Panama: Gross Domestic Product by Expenditure

	1997	1998	1999	2000	2001	2002
(In millions of balboas at current prices)						
Consumption	7,377	8,289	8,361	8,822	8,718	9,208
General government	1,083	1,142	1,226	1,219	1,286	1,271
Private sector	6,294	7,146	7,135	7,602	7,432	7,937
Gross domestic investment	2,610	3,304	3,669	3,406	3,139	3,146
Public sector	375	581	508	456	498	530
Private sector 1/	2,235	2,723	3,160	2,950	2,641	2,616
Total domestic demand	9,987	11,593	12,030	12,228	11,857	12,354
Exports of goods and services	3,498	3,262	3,279	3,557	3,613	3,569
Imports of goods and services	3,755	3,920	3,918	3,846	3,410	3,627
Foreign balance	-258	-657	-639	-289	203	-58
Gross domestic product at market prices	9,730	10,935	11,391	11,938	12,059	12,296
(In percent of GDP)						
Consumption	75.8	75.8	73.4	73.9	72.3	74.9
General government	11.1	10.4	10.8	10.2	10.7	10.3
Private sector	64.7	65.4	62.6	63.7	61.6	64.5
Gross domestic investment	26.8	30.2	32.2	28.5	26.0	25.6
Public sector	3.9	5.3	4.5	3.8	4.1	4.3
Private sector 1/	23.0	24.9	27.7	24.7	21.9	21.3
Total domestic demand	102.6	106.0	105.6	102.4	98.3	100.5
Exports of goods and services	86.2	75.2	28.8	29.8	30.0	29.0
Imports of goods and services	88.9	81.2	34.4	32.2	28.3	29.5
Foreign balance	-2.6	-6.0	-5.6	-2.4	1.7	-0.5
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0	100.0
(Percent change)						
Consumption	8.4	12.4	0.9	5.5	-1.2	5.6
General government	7.9	5.4	7.3	-0.6	5.4	-1.1
Private sector	8.4	13.5	-0.2	6.6	-2.2	6.8
Gross domestic investment	7.4	26.6	11.0	-7.2	-7.8	0.2
Public sector	19.5	55.1	-12.5	-10.3	9.1	6.5
Private sector 1/	5.6	21.8	16.1	-6.7	-10.5	-1.0
Total domestic demand	8.1	16.1	3.8	1.6	-3.0	4.2
Exports of goods and services	9.4	-6.7	0.5	8.5	1.6	-1.2
Imports of goods and services	14.4	4.4	0.0	-1.8	-11.3	6.4
Foreign balance	-1.9	155.1	-2.8	-54.7	-170.1	-128.6
Gross domestic product at market prices	6.3	12.4	4.2	4.8	1.0	2.0

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

1/ Includes changes in inventories.

Table 3. Panama: Saving and Investment

	1997	1998	1999	2000	2001	2002
(In millions of balboas)						
Gross domestic investment	2,610.0	3,303.8	3,668.5	3,406.0	3,139.0	3,146.1
Fixed capital formation	2,097.0	2,821.6	3,308.5	3,095.9	2,808.5	2,809.9
Public sector	374.6	581.0	508.3	456.1	497.6	529.9
Private sector	1,722.4	2,240.6	2,800.1	2,639.9	2,310.9	2,280.0
Changes in inventories	513.0	482.2	360.1	310.1	330.4	336.2
Gross national saving	2,103.9	2,287.9	2,509.5	2,717.0	2,965.4	3,042.3
Public sector saving	374.6	581.0	298.0	454.5	204.1	175.0
Private sector saving	1,722.4	2,240.6	2,800.1	2,639.9	2,310.9	2,280.0
Foreign saving	506.1	1,015.9	1,159.0	689.0	173.5	103.7
(In percent of GDP)						
Gross domestic investment	26.8	30.2	32.2	28.5	26.0	25.6
Fixed capital formation	21.6	25.8	29.0	25.9	23.3	22.9
Public sector	3.9	5.3	4.5	3.8	4.1	4.3
Private sector	17.7	20.5	24.6	22.1	19.2	18.5
Changes in inventories	5.3	4.4	3.2	2.6	2.7	2.7
Gross national saving	21.6	20.9	22.0	22.8	24.6	24.7
Public sector saving	2.7	2.1	2.6	3.8	1.7	1.4
Private sector saving	19.0	18.8	19.4	19.0	22.9	23.3
Foreign saving	5.2	9.3	10.2	5.8	1.4	0.8

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

Table 4. Panama: Electricity Generation and Consumption

(In thousands of gigawatt hours) 1/

	1999	2000	2001	2002	2003
Net generation	4.42	4.67	4.86	5.00	5.28
Hydro	3.12	3.40	2.55	3.28	2.89
Thermal	1.30	1.27	2.31	1.72	2.39
Total consumption	3.54	3.80	4.04	4.05	4.22
Residential	1.04	1.12	1.26	1.29	1.34
Commercial	1.45	1.57	1.73	1.69	1.95
Industrial	0.52	0.50	0.37	0.41	0.25
Government	0.51	0.59	0.66	0.66	0.69
Other	0.09	0.07	0.02	...	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 5. Panama: Private Sector Construction Permits

(In thousands of U.S. dollars)

	Total	Panamá	San Miguelito	Colón	Others
1998	336,069	215,460	41,507	32,128	46,974
1999	461,544	302,258	82,445	28,561	48,278
2000	509,251	363,666	72,278	29,004	44,303
2001	397,385	293,154	44,184	23,780	36,267
2002	345,581	231,112	59,198	17,680	37,591
2003	871,122	706,961	65,798	46,712	51,651

Source: Office of the Comptroller General.

Table 6. Panama: Premium and Regular Gasoline Sales

(In thousands of barrels)

Month	1999	2000	2001	2002	2003
January	271	273	275	281	258
February	259	265	252	260	250
March	311	288	280	297	255
April	292	278	275	278	267
May	280	280	264	274	267
June	283	279	272	263	254
July	290	265	276	289	271
August	293	282	282	283	269
September	270	271	256	269	261
October	276	274	266	291	287
November	269	263	281	266	...
December	305	295	306	302	...
Total	3,399	3,312	3,285	3,353	...

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

Table 7. Panama: Diesel Sales

(In thousands of barrels)

Month	1999	2000	2001	2002	2003
January	325	314	330	338	432
February	307	318	296	320	218
March	393	365	367	390	221
April	362	359	359	373	231
May	337	377	360	351	235
June	341	328	342	341	224
July	347	336	326	379	233
August	330	353	352	372	228
September	314	333	326	324	220
October	313	318	319	375	247
November	310	323	325	342	...
December	323	307	322	385	...
Total	4,001	4,031	4,025	4,290	...

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

Table 8. Panama: Monthly Index of Economic Activity

(Base year 1997=100)

	Original	Trend	Percent Change	
			Original	Trend
(Period average)				
1997	100.0	100.5	6.3	6.6
1998	104.7	104.7	4.7	4.1
1999	110.1	110.3	5.1	5.4
2000	112.8	114.2	2.5	3.5
2001	109.5	110.4	-2.9	-3.3
2002	109.9	110.4	0.4	0.0
2003 1/	115.1	114.4	4.8	3.6
(End of period)				
1997	98.4	103.6	6.6	7.4
1998	102.6	107.2	4.3	3.5
1999	112.6	111.4	9.7	3.9
2000	108.6	112.5	-3.6	1.0
2001	105.8	110.3	-2.6	-1.9
2002	108.9	112.0	2.9	1.5
2003 1/	128.7	119.6	18.2	6.8

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

1/ Year through November.

Table 9. Panama: Canal Statistics

Fiscal year Ended Sep. 30	Number of Transits (In thousands)	Total Traffic		Traffic Assessed Toll on Net Tonnage Basis 1/		
		Tolls (In millions of balboas)	Cargo Tonnage (In millions of long tons)	Average Toll (balboas per long ton)	Number of Transits (In thousands)	Average Tonnage per Transit (In thousands of p.c. net tons)
Total traffic						
1998	14.2	545.7	192.2	2.8	14.1	222.6
1999	14.3	568.9	196.0	2.9	14.1	227.6
2000	13.7	574.2	193.7	3.0	13.5	229.9
2001	13.5	579.5	193.2	3.0	13.3	231.2
2002	13.2	588.8	187.8	3.1	11.9	234.7
2003	13.1	666.0	188.3	3.5	11.7	242.2
<i>Of which:</i>						
Commercial						
ocean traffic 3/						
1998	13.0	545.4	192.2	2.8	12.9	222.5
1999	13.1	568.1	196.0	2.9	13.0	227.4
2000	12.3	573.0	193.7	3.0	13.7	229.5
2001	12.2	578.4	193.1	3.0	12.1	230.7
2002	11.9	588.9	187.8	3.1	11.9	234.7
2003	11.7	666.0	188.3	3.5	11.7	242.2

Sources: Panama Canal Authority; 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. Noncommercial ocean traffic is mainly U.S. government traffic.

3/ Ocean traffic includes ships of 300 p.c. net tons and over.

Table 10. Panama: Labor Force Statistics

	1999	2000	2001	2002	2003 1/
(In thousands of persons)					
Total population	2,811.9	2,948.0	3,004.0	3,058.0	3,113.0
Working age population	1,779.1	1,814.8	1,907.2	1,949.7	1,984.8
Total labor force 2/	1,089.4	1,086.6	1,154.0	1,219.6	1,241.5
Employment by activity	961.4	942.0	984.2	1,111.7	1,146.6
Agriculture and mining	168.4	163.0	210.0	236.3	240.6
Manufacturing	94.0	85.3	86.0	100.2	103.6
Public utilities	7.0	6.9	9.3	8.6	9.3
Construction	73.0	69.2	63.9	71.9	79.7
Commerce	182.7	181.0	170.8	195.6	199.8
Banking	23.9	27.3	20.6	22.5	21.3
Transportation and communication	73.0	71.7	73.2	81.9	86.0
Other services	339.4	337.6	323.9	394.6	406.3
Unemployment	128.0	144.6	169.7	107.9	95.0
Unemployment rate (percent)	11.8	13.3	14.7	8.8	7.6
Memorandum items					
Employment by sector					
Total	961.4	942.0	984.2	1,111.7	1,146.6
Public sector	156.1	171.6	177.7	181.0	182.0
Private business	424.1	401.6	421.3	443.3	443.3
Self-employed	296.1	291.3	296.0	333.2	333.2
Other	85.0	77.5	89.2	154.2	188.1
(Annual percent change)					
Total population	1.7	4.8	1.9	1.8	1.8
Working age population	2.1	2.0	5.1	2.2	1.8
Total labor force	0.5	-0.3	6.2	5.7	1.8
Employed	2.7	-2.0	4.5	12.9	3.1
Unemployed	-13.0	12.9	17.4	-36.4	-12.0
Labor force participation rate 3/	61.2	59.9	60.5	62.6	62.6
Employment rate 4/	54.0	51.9	51.6	57.0	57.8
Unemployment rate	11.8	13.3	14.7	8.8	7.6
<i>Of which:</i>					
Metropolitan areas 5/	13.8	15.2	17.0	16.1	16.1

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

1/ As of August 2003 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 percentage of the working-age population.

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

5/ Includes the cities of Panama and Colon.

Table 11. Panama: Selected Price Indices 1/
(Annual percent change)

	1999	2000	2001	2002	2003
(Period average)					
Consumer price index	1.3	1.4	0.3	1.0	1.2
Wholesale price index	2.7	8.7	-3.2	-3.0	1.7
Imports	6.0	13.1	-5.1	-4.5	1.6
Industrial products	-0.3	6.2	-1.9	-1.8	2.9
Agricultural products	0.8	0.6	0.5	-0.8	-2.8
GDP deflator	-0.1	1.5	0.7	1.2	1.1
(End of period)					
Consumer price index	1.5	0.7	0.0	1.8	1.2
Wholesale price index	6.8	7.2	-9.4	2.2	1.1
Imports	12.2	10.9	-13.9	1.7	1.5
Industrial products	2.9	4.7	-6.3	3.8	1.3
Agricultural products	0.9	-0.3	-0.3	-2.2	-1.8

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

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

Table 12. Panama: Wholesale Price Index

(Annual percent change)

	Total	Imports	Industrial	Agricultural
(In percent)				
Weights	100.0	43.7	45.1	11.2
(Period average)				
1998	-3.9	-5.7	-3.3	1.5
1999	2.7	6.0	-0.3	0.8
2000	8.7	13.1	6.2	0.6
2001	-3.2	-5.1	-1.9	0.5
2002	-3.0	-4.5	-1.8	-0.8
2003	1.7	1.6	2.9	-2.8
(End of period)				
1998	-3.9	-5.6	-3.4	1.3
1999	6.8	12.2	2.9	0.9
2000	7.2	10.9	4.7	0.3
2001	-9.4	-13.9	-6.3	-0.3
2002	2.2	1.7	3.8	-2.2
2003	1.1	1.5	1.3	-1.8
2000				
March	10.9	17.0	7.7	-0.6
June	10.3	13.8	8.5	1.5
September	6.9	10.9	3.8	1.3
December	7.2	10.9	4.7	0.3
2001				
March	1.7	2.8	0.4	1.1
June	-1.3	-2.5	-0.4	0.9
September	-3.5	-6.1	-1.3	0.4
December	-9.4	-13.9	-6.3	-0.3
2002				
March	-7.8	-11.3	-6.1	2.4
June	-3.3	-3.9	-3.4	-0.3
September	-2.7	-4.0	-1.3	-3.0
December	2.2	1.7	3.8	-2.2
2003				
March	4.8	5.7	6.2	-5.0
June	-0.9	-2.6	2.2	-5.3
September	1.9	1.6	3.0	-1.2
December	1.0	1.9	0.3	0.4

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

Table 13. Panama: Consumer Price Index
(Annual percent change)

	Total	Food	Clothing	Housing	Miscellaneous
(In percent)					
Weights:	100.0	34.9	5.1	21.0	39.0
(Period average)					
1998	0.6	0.3	1.3	1.0	0.6
1999	1.3	0.2	0.4	2.6	1.8
2000	1.4	0.7	0.3	2.4	1.7
2001	0.3	-0.6	4.2	4.1	-0.3
2002	1.0	-0.7	-0.4	3.1	2.6
2003	1.2	0.3	0.5	-0.9	-1.1
(End of period)					
1998	1.4	-0.3	1.9	3.7	1.6
1999	1.5	1.6	-0.6	-0.1	2.5
2000	0.7	-0.6	1.9	4.4	-0.3
2001	0.0	-0.5	3.5	4.2	-0.2
2002	1.8	-0.4	0.4	1.2	4.0
2003	1.2	2.4	-0.9	4.1	0.9
2000					
March	1.8	0.4	-0.6	2.4	3.1
June	1.7	1.1	-0.3	2.0	2.3
September	1.4	0.8	0.2	2.0	0.7
December	0.7	-0.3	1.4	4.1	-0.3
2001					
March	0.3	-0.7	4.1	3.2	-0.2
June	-0.4	-0.8	4.6	2.8	-1.0
September	0.7	-0.3	4.3	6.0	0.6
December	0.0	-0.9	3.9	4.6	-0.2
2002					
March	0.9	-0.2	0.4	3.9	1.7
June	1.2	-1.4	-0.5	4.7	2.7
September	0.6	-0.3	-0.8	1.5	2.0
December	1.8	-0.4	0.4	1.2	4.0
2003					
March	1.6	0.3	1.6	2.6	2.2
June	1.5	1.1	0.6	0.1	0.2
September	1.4	1.2	1.5	2.9	0.6
December	1.7	2.4	-0.9	4.1	0.9

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

Table 14. Panama: Operations of the Nonfinancial Public Sector

	1998	1999	2000	2001	2002
(In millions of balboas)					
Revenue and grants	2,596.4	2,802.1	3,112.4	3,007.6	3,106.9
Revenue	2,539.1	2,797.1	3,108.6	3,007.0	3,106.9
General government revenue	2,319.8	2,645.3	2,822.2	2,655.2	2,725.3
Central government	1,582.5	1,878.3	2,000.1	1,834.9	1,911.2
Social security agency	666.8	689.9	741.9	735.3	725.2
Decentralized agencies	70.4	77.2	80.2	85.0	88.9
Public enterprise operating balance (deficit -)	139.2	105.9	308.2	269.7	299.4
Overall balance of nonconsolidated public sector (deficit -)	70.0	-22.5	-68.7	-2.4	-30.6
Educational insurance balance (deficit -)	-17.0	-4.1	-16.2	-2.4	-5.9
Capital revenue	27.1	72.4	63.2	87.0	118.7
Grants	57.3	5.0	3.8	0.6	0.0
Expenditure	2,863.7	2,940.0	3,050.8	3,214.1	3,343.1
General government current expenditure	2,282.5	2,431.7	2,594.8	2,716.5	2,813.2
Central government	1,326.9	1,449.3	1,541.7	1,592.5	1,609.9
Social security agency	815.2	845.5	905.7	982.6	1,055.0
Decentralized agencies	140.4	136.9	147.3	141.4	148.3
Capital	581.1	508.3	456.1	497.6	529.9
Fixed investment	528.1	528.1	528.1	528.1	528.1
Transfers to private sector	55.2	55.2	55.2	55.2	55.2
Saving 1/	229.5	293.0	450.7	203.5	175.0
Overall balance (deficit -)	-267.3	-137.9	61.6	-206.5	-236.2
Financing	267.3	137.9	-61.6	206.5	236.2
External	383.8	240.5	109.9	365.7	328.5
Disbursements	703.7	662.3	510.1	1,245.8	1,079.5
Repayments	347.0	414.0	391.3	535.7	946.2
Arrears	-29.8	0.0	0.0	0.0	0.0
Change in deposits abroad	-56.8	7.8	8.9	344.4	-195.2
Domestic (net)	-377.0	-344.3	-172.6	-159.6	-92.3
Trust Fund for Development	-284.8	-279.4	-28.8	115.6	0.0
Panama Canal Authority	0.0	0.0	-130.9	-57.5	-66.0
Other	-92.2	-64.9	-12.9	-217.7	-26.3
Of which: banking system	-116.4	-68.4	-35.1	113.4	213.1
Privatization	260.5	241.7	1.1	0.4	0.0

Table 14. Panama: Operations of the Nonfinancial Public Sector

	1998	1999	2000	2001	2002
(Percent change)					
Revenue	5.2	10.2	11.1	-3.3	3.3
Expenditure	14.6	2.7	3.8	5.4	4.0
Current	7.5	6.5	6.7	4.7	3.6
Capital	55.1	-12.5	-10.3	9.1	6.5
(In percent of GDP)					
Revenue and grants	23.7	24.6	26.1	24.9	25.3
Expenditure	26.2	25.8	25.6	26.7	27.2
Current	20.9	21.3	21.7	22.5	22.9
Capital	5.3	4.5	3.8	4.1	4.3
Saving 1/	2.1	2.6	3.8	1.7	1.4
Overall balance (deficit-)	-2.4	-1.2	0.5	-1.7	-1.9
Financing (net)	2.4	1.2	-0.5	1.7	1.9
External	3.5	2.1	0.9	3.0	2.7
Domestic (net)	-3.4	-3.0	-1.4	-1.3	-0.8
Trust Fund for Development	-2.6	-2.5	-0.2	1.0	0.0
Panama Canal Authority	0.0	0.0	-1.1	-0.5	-0.5
Other	-0.8	-0.6	-0.1	-1.8	-0.2
Of which : banking system	-1.1	-0.6	-0.3	0.9	1.7
Privatization	2.4	2.1	0.0	0.0	0.0
(In millions of balboas)					
Memorandum items:					
External interest obligations	285.8	327.1	366.3	414.7	448.5
GDP (market prices)	10,935	11,391	11,938	12,059	12,296

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

1/ Current revenue less current expenditure.

Table 15. Panama: Central Government Operations

	1998	1999	2000	2001	2002
(In millions of balboas)					
Revenue and grants	1,767.2	1,945.4	2,114.4	1,976.4	2,077.4
Current revenue	1,708.5	1,937.2	2,109.4	1,917.2	1,987.2
Tax revenue	1,104.1	1,211.2	1,120.1	1,038.5	1,050.7
Income tax	399.5	508.4	494.2	453.8	451.7
Wealth taxes	51.7	59.6	52.7	60.9	56.1
Taxes on foreign trade	251.4	240.1	201.9	172.4	183.3
Taxes on domestic transactions	401.5	403.0	371.3	351.4	359.7
Nontax revenue	604.3	726.0	989.3	878.7	936.5
Panama Canal	96.3	138.8	142.4	141.1	152.1
Oil pipeline royalties	0.1	0.0	0.0	0.0	0.0
Transfers from the rest of public sector	223.5	154.5	340.4	251.8	200.2
Other	284.5	320.6	366.0	382.1	461.5
Capital revenue	1.4	3.2	1.2	58.6	90.2
Grants	57.3	5.0	3.8	0.6	0.0
Expenditure	2,228.2	2,173.6	2,242.3	2,292.7	2,304.8
Current	1,797.4	1,786.9	1,965.4	1,972.6	1,972.4
Wages and salaries	636.8	685.0	641.7	671.6	695.5
Goods and services	144.3	163.2	178.3	172.4	146.9
Pensions and transfers	648.1	485.1	615.7	562.7	567.8
<i>Of which:</i>					
Social security agency	400.0	260.1	346.4	298.1	280.4
Decentralized agencies	78.4	83.5	85.0	92.9	91.3
Public enterprises	2.0	2.1	2.0	3.0	2.1
Interest	321.8	406.2	485.0	500.4	508.0
Domestic	42.3	83.2	122.0	93.7	66.0
External	279.5	323.0	363.0	406.7	442.0
Other current expenditure	46.5	47.5	44.8	65.5	54.2
Capital	430.8	386.7	276.9	320.1	332.5
Fixed capital formation	382.0	351.0	223.0	245.0	279.6
Transfers of capital	48.8	35.7	53.9	75.1	52.8
To public enterprises	3.5	2.1	5.1	17.9	5.1
Saving 1/	-31.7	155.3	147.8	-54.8	14.8
Overall balance (deficit-)	-461.0	-228.2	-127.9	-316.3	-227.5
(In millions of balboas)					
Financing	461.0	228.2	127.9	316.3	227.5
External	499.9	256.8	119.9	365.5	327.6
Disbursements	655.0	625.3	484.5	1,218.8	1,075.8
Repayments	231.1	393.0	381.3	535.7	946.9
Debt rescheduling	19.2	32.3	25.6	26.8	3.5
Change in deposits abroad	-56.8	7.8	8.9	344.4	-195.2
Domestic (net)	-299.4	-270.3	6.9	-49.6	-100.1
Trust Fund for Development	-260.5	-241.1	-1.1	115.6	0.0
Others	-38.9	-29.2	8.0	-165.2	-100.1
<i>Of which: banking system</i>	-159.2	106.2	-142.5	-165.4	149.7
Privatization	260.5	241.7	1.1	0.4	0.0

Table 15. Panama: Central Government Operations

	1998	1999	2000	2001	2002
(Percent change)					
Current revenue	6.8	13.4	8.9	-9.1	3.6
Tax revenue	5.8	9.7	-7.5	-7.3	1.2
Nontax revenue	9.0	20.1	36.3	-11.2	6.6
Total expenditure	33.6	-2.5	3.2	2.2	0.5
Current expenditure	21.4	-0.6	10.0	0.4	0.0
Capital expenditure	130.4	-10.2	-28.4	15.6	3.9
(In percent of GDP)					
Current revenue	15.6	17.0	17.7	15.9	16.2
Tax revenue	10.1	10.6	9.4	8.6	8.5
Nontax revenue	5.5	6.4	8.3	7.3	7.6
Total expenditure	20.4	19.1	18.8	19.0	18.7
Current expenditure	16.4	15.7	16.5	16.4	16.0
Capital expenditure	3.9	3.4	2.3	2.7	2.7
Saving 1/	-0.3	1.4	1.2	-0.5	0.1
Overall balance (deficit -)	-4.2	-2.0	-1.1	-2.6	-1.8
Financing (net)	4.2	2.0	1.1	2.6	1.8
External	4.6	2.3	1.0	3.0	2.7
Domestic	-2.7	-2.4	0.1	-0.4	-0.8
Trust Fund for Development	-2.4	-2.1	0.0	1.0	0.0
Other	-0.4	-0.3	0.1	-1.4	-0.8
<i>Of which</i> : banking system	-1.5	0.9	-1.2	-1.4	1.2
Privatization	2.4	2.1	0.0	0.0	0.0
(In millions of balboas)					
Memorandum item:					
GDP (market prices)	10,935	11,391	11,938	12,059	12,296

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

1/ Current revenue less current expenditure.

Table 16. Panama: Central Government Revenue

	1998	1999	2000	2001	2002
(In millions of balboas)					
Total revenue and grants	1,767.2	1,945.4	2,114.4	1,976.4	2,077.4
Tax revenue	1,104.1	1,211.2	1,120.1	1,038.5	1,050.7
Direct taxes	451.2	568.1	547.0	514.7	507.7
Income tax	399.5	508.4	494.2	453.8	451.7
Wealth tax	51.7	59.6	52.7	60.9	56.1
Taxes on foreign trade	251.4	240.1	201.9	172.4	183.3
Export taxes	2.9	0.6	0.2	0.0	0.0
Import taxes	248.5	239.6	201.7	172.4	183.3
Taxes on domestic transactions	401.5	403.0	371.3	351.4	359.7
Tobacco and beverages	38.0	33.4	32.5	33.4	31.1
Value added tax	182.5	187.5	165.6	154.1	156.0
Petroleum products	115.2	122.0	108.8	106.9	115.6
Stamp taxes					
Other	65.8	60.1	64.4	57.1	57.0
Nontax revenue	604.3	726.0	989.3	878.7	936.5
Panama Canal	96.3	138.8	142.4	141.1	152.1
Oil pipeline royalties	0.1	0.0	0.0	0.0	0.0
Other Services	212.3	194.7	177.2	161.8	208.6
Transfers from rest of public sector	223.5	154.5	340.4	251.8	200.2
Of which:					
Consolidated public sector	125.9	58.9	109.2	82.3	75.9
Nonconsolidated public sector	97.5	95.5	231.2	169.5	124.2
Interest earnings and dividends	72.1	238.0	329.3	324.0	375.7
Capital revenue	1.4	3.2	1.2	58.6	90.2
Grants	57.3	5.0	3.8	0.6	0.0
(In percent of GDP)					
Total revenue and grants	16.2	17.1	17.7	16.4	16.9
Tax revenue	10.1	10.6	9.4	8.6	8.5
Direct taxes	4.1	5.0	4.6	4.3	4.1
Income tax	3.7	4.5	4.1	3.8	3.7
Wealth tax	0.5	0.5	0.4	0.5	0.5
Taxes on foreign trade	2.3	2.1	1.7	1.4	1.5
Import taxes	2.3	2.1	1.7	1.4	1.5
Taxes on domestic transactions	3.7	3.5	3.1	2.9	2.9
Tobacco and beverages	0.3	0.3	0.3	0.3	0.3
Value added tax	1.7	1.6	1.4	1.3	1.3
Petroleum products	1.1	1.1	0.9	0.9	0.9
Other	0.6	0.5	0.5	0.5	0.5
Nontax revenue	5.5	6.4	8.3	7.3	7.6
Panama Canal	0.9	1.2	1.2	1.2	1.2
Oil pipeline royalties	0.0	0.0	0.0	0.0	0.0
Services	1.9	1.7	1.5	1.3	1.7
Transfers from rest of public sector	2.0	1.4	2.9	2.1	1.6
Of which:					
Consolidated public sector	1.2	0.5	0.9	0.7	0.6
Nonconsolidated public sector	0.9	0.8	1.9	1.4	1.0
Interest earnings and dividends	0.7	2.1	2.8	2.7	3.1
Capital revenue	0.0	0.0	0.0	0.5	0.7
Grants	0.5	0.0	0.0	0.0	0.0
Memorandum item:					
GDP (market prices)	10,935	11,391	11,938	12,059	12,296

Sources: Office of the Comptroller General and Ministry of Economy and Finance.

Table 17. Panama: Central Government Expenditure

	1998	1999	2000	2001	2002
Total expenditure	2,228.2	2,173.6	2,242.3	2,292.7	2,304.8
Current expenditure	1,797.4	1,786.9	1,965.4	1,972.6	1,972.4
Wages and salaries	636.8	685.0	641.7	671.6	695.5
Goods and services	144.3	163.2	178.3	172.4	146.9
Interest	321.8	406.2	485.0	500.4	508.0
Pensions and transfers	648.1	485.1	615.7	562.7	567.8
Other	46.5	47.5	44.8	65.5	54.2
Capital expenditure	430.8	386.7	276.9	320.1	332.5
Investment	382.0	351.0	223.0	245.0	279.6
Transfers	48.8	35.7	53.9	75.1	52.8
Memorandum item:					
Noninterest expenditure	1,475.6	1,380.7	1,480.4	1,472.2	1,464.4
(In percent of GDP)					
Total expenditure	20.4	19.1	18.8	19.0	18.7
Current expenditure	16.4	15.7	16.5	16.4	16.0
Wages and salaries	5.8	6.0	5.4	5.6	5.7
Goods and services	1.3	1.4	1.5	1.4	1.2
Interest	2.9	3.6	4.1	4.1	4.1
Pensions and transfers	5.9	4.3	5.2	4.7	4.6
Other	0.4	0.4	0.4	0.5	0.4
Capital expenditure	3.9	3.4	2.3	2.7	2.7
Investment	3.5	3.1	1.9	2.0	2.3
Transfers	0.4	0.3	0.5	0.6	0.4
Memorandum item:					
Noninterest expenditure	13.5	12.1	12.4	12.2	11.9
(Annual percent change)					
Total expenditure	33.6	-2.5	3.2	2.2	0.5
Current expenditure	21.4	-0.6	10.0	0.4	0.0
Wages and salaries	7.5	7.6	-6.3	4.7	3.6
Goods and services	-2.2	13.1	9.2	-3.3	-14.8
Interest	7.4	26.2	19.4	3.2	1.5
Pensions and transfers	64.4	-25.2	26.9	-8.6	0.9
Other	-0.9	2.2	-5.7	46.3	-17.3
Capital expenditure	130.4	-10.2	-28.4	15.6	3.9
Investment	189.6	-8.1	-36.5	9.9	14.1
Transfers	-11.4	-26.9	51.2	39.3	-29.6
Memorandum items:					
Noninterest Expenditure	25.0	-6.4	7.2	-0.6	-0.5
Nominal GDP	10,935	11,391	11,938	12,059	12,296

Sources: Office of the Comptroller General and Ministry of Economy and Finance.

Table 18. Panama: Operations of the Social Security Agency

	1997	1998	1999	2000	2001	2002
(In millions of balboas)						
Current revenue	613.0	666.8	689.9	673.9	735.3	725.2
Contributions	488.8	522.9	556.9	592.4	585.7	580.6
Professional risk premium	36.8	40.6	44.3	46.5	44.1	43.4
Administered funds	11.9	6.9	6.7	7.5	6.8	-11.5
Income from investment	58.5	64.3	63.4		72.2	37.2
Other	17.0	32.1	18.6	27.5	26.5	75.5
Current expenditure	780.6	815.2	846.0	906.1	982.9	1,055.1
Wages	156.2	166.0	171.6	180.3	204.3	226.1
Goods and services	97.5	104.2	111.8	120.6	134.0	97.3
Transfers	526.2	544.4	562.0	604.8	644.3	731.6
Domestic interest	0.7	0.6	0.5	0.4	0.3	0.2
Operating balance (deficit -)	-167.6	-148.4	-156.1	-232.3	-247.6	-329.9
Current transfers (net)	193.5	399.5	259.6	345.8	297.3	279.3
Transfers from central government	194.0	400.0	260.1	346.4	298.1	280.4
Transfers to central government	0.5	0.5	0.5	0.5	0.8	1.1
Capital revenue	9.7	10.5	11.7	15.1	15.3	0.5
Saving 1/	35.6	262.2	115.6	129.2	65.8	-49.1
Capital expenditure	24.2	27.0	27.2	22.1	20.9	19.0
Fixed investment	24.2	27.0	27.2	22.1	20.9	19.0
Overall balance (deficit -)	11.4	234.7	87.9	174.6	44.1	-69.1
(In percent of GDP)						
Current revenue	7.1	6.1	6.1	5.6	6.1	5.9
<i>Of which:</i>						
Contributions	5.6	4.8	4.9	5.0	4.9	4.7
Total expenditure	9.3	7.7	7.7	7.8	8.3	8.7
<i>Of which:</i>						
Current	9.0	7.5	7.4	7.6	8.2	8.6
Operating balance (deficit -)	-1.9	-1.4	-1.4	-1.9	-2.1	-2.7
Current transfers (net)	2.2	3.7	2.3	2.9	2.5	2.3
Overall balance (deficit -)	0.1	2.1	0.8	1.5	0.4	-0.6
Nominal GDP	8,658	10,935	11,391	11,938	12,059	12,296

Sources: Social Security Agency and Ministry of Economy and Finance.

1/ Including capital revenue.

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

	1998	1999	2000	2001	2002
(In millions of balboas)					
Operating revenue	70.4	77.2	80.2	85.0	88.9
Operating expenditure	140.4	140.4	153.3	147.2	153.4
Interest	9.0	3.6	6.0	5.8	5.1
Other	131.3	136.9	147.3	141.4	148.3
Operating balance (deficit -)	-70.0	-63.2	-73.2	-62.2	-64.5
Current transfers (net)	74.4	83.3	57.9	69.7	91.8
Transfers from central government	78.4	83.5	85.0	92.1	91.8
Transfers to central government	4.0	0.2	27.1	22.4	0.0
Capital transfers from central government	3.3	2.1	4.2	16.1	3.2
Capital revenue	15.1	25.5	17.3	13.0	13.0
Saving 3/	16.3	43.5	-2.2	4.4	37.1
Capital expenditure (fixed investment)	24.5	19.0	30.5	25.0	20.5
Overall balance (deficit -)	-1.7	28.7	-24.2	11.6	23.0
(In percent of GDP)					
Operating revenue	0.6	0.7	0.7	0.7	0.7
Operating expenditure	1.3	1.2	1.3	1.2	1.2
Operating balance (deficit -)	-0.6	-0.6	-0.6	-0.5	-0.5
Current transfers (net)	0.7	0.7	0.5	0.6	0.7
Overall balance (deficit -)	0.0	0.3	-0.2	0.1	0.2
Memorandum item:					
GDP (market prices)	10,935	11,391	11,938	12,059	12,296

Sources: Office of the Comptroller General and Ministry of Economy and Finance.

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/

	1998	1999	2000	2001	2002
(In millions of balboas)					
Current revenue	503.8	241.2	238.9	243.6	244.0
Operating expenditure	364.5	135.3	159.4	146.9	141.6
Wages and salaries	95.9	45.8	46.1	47.0	48.1
Goods and services	174.5	58.9	58.7	61.5	55.9
Transfers	25.4	16.6	27.6	20.0	26.6
Other 2/	61.1	11.3	22.7	12.5	9.4
Interest 3/	7.7	2.7	4.3	5.9	1.6
Operating balance (deficit -)	139.2	105.9	79.5	96.7	102.4
Current transfers net of taxes	-119.6	-56.1	-80.5	-57.9	-74.7
Transfers from central government	2.0	2.1	2.0	3.0	2.1
Transfers to central government	-121.4	-58.2	-81.6	-59.1	-74.9
Capital revenue	0.0	0.0	1.8	0.1	2.0
Capital transfers from central government	0.2	0.0	0.9	1.8	1.9
Saving 4/	19.6	49.8	0.7	38.8	29.7
Capital expenditure	102.3	67.9	34.7	21.5	37.1
Overall balance (deficit -)	-82.6	-18.1	-32.2	17.4	-5.4
(In percent of GDP)					
Current revenue	4.6	2.1	2.0	2.0	2.0
Operating expenditure	3.3	1.2	1.3	1.2	1.2
Operating balance (deficit -)	1.3	0.9	0.7	0.8	0.8
Current transfers (net)	-1.1	-0.5	-0.7	-0.5	-0.6
Capital expenditure	0.9	0.6	0.3	0.2	0.3
Overall balance (deficit -)	-0.8	-0.2	-0.3	0.1	0.0
Memorandum item:					
GDP (market prices)	10,935	11,391	11,938	12,059	12,296

Sources: Office of the Comptroller General and Ministry of Economy and Finance.

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 (IDAA), 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/ Unclassified expenditure that was authorized during a previous budget year.

3/ Domestic interest.

4/ Including capital revenue.

Table 21. Panama: Nonfinancial Public Sector Gross Domestic Debt

(In millions of balboas; end of period)

	1998	1999	2000	2001	2002
Private sources	179.8	654.0	620.1	747.6	869.6
Short-term treasury notes	38.0	114.0	114.0	250.0	243.4
Medium-term treasury notes	0.0	0.0	0.0	0.0	159.5
Suppliers	0.0	0.0	0.0	0.0	0.0
Domestic bonds	81.5	92.3	102.0	92.8	81.4
Recognition bonds	0.0	394.9	363.9	363.9	363.9
Private financing	24.2	19.7	15.3	10.8	6.3
Other lending	36.0	33.0	24.9	30.1	15.1
Public financial institutions	912.7	789.7	683.9	602.6	579.2
Total	1,092.4	1,443.7	1,304.0	1,350.2	1,448.8

Sources: Office of the Comptroller General and Ministry of Economy and Finance.

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

(In millions of balboas, end of period)

	1999	2000	2001	2002	2003
I. National Bank of Panama					
Net foreign assets	768.3	660.8	1,064.4	1,135.0	978.8
Net foreign reserves	824.5	707.1	1,116.1	1,170.5	1,012.6
Assets	871.0	755.6	1,156.1	1,215.0	1,043.6
Reserve position with IMF	15.8	15.2	16.8	16.1	17.6
SDR holdings 2/	0.0	0.0	0.0	0.0	0.0
Foreign currencies	69.5	69.9	83.5	82.1	72.9
Bonds	0.0	0.0	0.0	0.0	0.0
Deposits abroad	785.7	670.5	1,055.7	1,116.8	953.1
Short term liabilities 3/	41.7	43.0	26.3	37.3	23.5
Deposits from nonresidents	4.8	5.6	13.7	7.2	7.5
Long-term foreign liabilities	56.2	46.3	51.7	35.5	33.9
Net domestic reserves	718.7	610.5	331.0	-9.2	-172.9
Domestic currency	3.0	3.7	3.8	3.2	1.7
Interbank deposits (net)	650.6	552.9	266.3	-50.2	-221.6
Checks in clearing	65.1	53.9	60.8	37.8	47.1
Net domestic assets	-1,090.3	-838.6	-829.9	-435.7	-96.2
Public sector (net)	-1,197.6	-1,149.4	-1,368.6	-1,172.1	-962.0
Central government (net)	331.8	177.5	-49.6	82.7	246.5
Rest of public sector (net)	-1,529.5	-1,326.9	-1,319.0	-1,254.8	-1,208.5
Of which: Social Security	-1,169.6	-1,078.1	-1,111.5	-1,063.7	-984.8
Private sector	583.8	747.8	976.0	1,119.0	1,228.4
Official capital and surplus	-500.0	-500.0	-500.0	-500.0	-500.0
Unclassified assets (net)	23.5	63.0	62.6	117.4	137.4
Liabilities to domestic private sector	396.7	432.8	565.5	690.1	709.7
Demand deposits	92.1	59.0	85.1	87.4	84.5
Time deposits	115.9	164.1	245.4	302.9	334.4
Savings deposits	180.6	203.4	228.6	291.1	284.7
Cashier's checks in circulation	8.1	6.4	6.4	8.7	6.0
II. Private Banks					
Net foreign reserves	517.5	840.0	619.0	602.0	1,507.0
Assets	3,787.2	4,143.6	4,084.0	3,159.0	3,603.0
Foreign currencies	187.6	139.1	304.0	255.0	231.0
Deposits abroad	3,229.6	3,533.4	3,314.0	3,073.0	3,292.0
Other unclassified	370.0	471.1	466.0	234.0	291.0
Liabilities	565.9	360.5	445.0	196.0	209.0
Overseas operations (net)	-2,703.8	-2,943.2	-3,020.0	-2,361.0	-1,887.0
Credit to nonresidents	8,574.8	8,475.2	8,619.0	6,576.0	6,176.0
Deposits from nonresidents	7,709.3	7,230.3	7,113.0	5,985.0	5,720.0
Foreign banks	5,568.4	4,987.1	5,094.0	3,889.0	3,208.0
Private nonresidents	2,140.8	2,243.2	2,019.0	2,096.0	2,512.0
Other foreign liabilities	3,569.4	4,188.1	4,526.0	2,952.0	2,343.0

Table 22. Panama: Accounts of the Banking System (Cont.) 1/

(In millions of balboas, end of period)

	1999	2000	2001	2002	2003
II. Private Banks					
Net domestic reserves	-631.3	-663.3	-485.0	-380.0	-206.0
Domestic currency	18.8	11.7	0.0	0.0	0.0
Interbank deposits (net)	-650.0	-675.0	-485.0	-380.0	-206.0
Net domestic assets	9,810.2	10,527.7	11,339.0	10,918.0	10,570.0
Net credit to public sector	121.8	136.6	206.5	-75.0	-7.0
Private sector credit	10,528.3	11,117.2	11,766.5	11,174.0	11,003.0
Unclassified assets (net)	-839.9	-726.1	-634.0	158.0	-99.0
Liabilities to the private sector	9,696.5	10,704.4	11,473.0	11,140.0	11,871.0
Monetary liabilities	7,438.8	8,149.6	8,842.0	8,715.0	9,126.0
Demand deposits	1,062.2	1,094.7	1,193.0	1,233.0	1,354.0
Time and savings deposits	6,376.7	7,054.9	7,649.0	7,482.0	7,772.0
Time deposits	5,140.6	5,838.8	6,173.0	5,797.0	5,907.0
Savings deposits	1,236.1	1,216.1	1,476.0	1,685.0	1,865.0
Private capital and surplus	2,257.7	2,554.9	2,631.0	2,425.0	2,745.0
III. Savings Bank					
Foreign assets (net)	9.7	5.3	9.6	7.2	2.2
Net domestic reserves	175.2	200.2	-1.4	176.1	149.8
Domestic currency	0.0	0.1	0.1	0.1	2.4
Deposits in local banks (net)	171.8	196.1	-2.9	173.9	144.2
Demand deposits	4.7	5.6	5.4	5.2	5.7
Time deposits	167.1	204.8	18.0	168.7	138.6
Deposits of banks	0.0	-14.3	-26.4	0.0	0.0
Checks in clearing 4/	3.4	3.9	1.5	2.0	3.1
Net domestic assets	204.8	170.4	396.0	318.7	384.9
Public sector (net)	-105.0	-203.2	-259.7	-151.4	-165.5
Central government	3.7	0.7	1.5	119.9	141.3
Loans and advances	3.7	0.7	1.5	119.9	141.3
Deposits	0.0	0.0	0.0	0.0	0.0
Rest of public sector	-108.7	-203.9	-261.2	-271.4	-306.8
Loans and advances	-96.0	-126.0	-118.0	-128.0	-96.3
Deposits	-12.7	-77.9	-143.2	-143.4	-210.5
Private sector	424.5	465.3	516.8	533.2	551.5
Loans and discounts	383.6	432.7	500.2	519.2	539.0
Investment	40.9	32.6	16.6	14.1	12.5
Unclassified assets (net)	-18.7	10.9	249.0	54.6	131.9
Official capital and surplus	96.0	102.6	110.1	117.6	133.0
Liabilities to private sector	389.6	375.8	404.2	502.0	536.8
Demand deposits	11.0	12.2	17.4	22.0	19.5
Time and savings deposits	378.6	363.6	386.7	477.5	500.9
Time deposits	134.9	142.5	153.1	171.4	158.6
Savings deposits	243.7	221.2	233.6	285.6	297.1

Table 22. Panama: Accounts of the Banking System (Concl.) 1/

(In millions of balboas, end of period)

	1999	2000	2001	2002	2003
IV. Consolidated Banking System					
Net foreign assets	1,295.6	1,506.1	1,693.0	1,744.2	2,488.0
Assets	4,673.9	4,909.5	5,249.6	4,384.2	4,650.7
Liabilities	669.8	454.7	522.9	271.8	268.3
Overseas operations (net)	-2,708.6	-2,948.7	-3,033.7	-2,368.2	-1,894.5
Credit to nonresidents	8,574.8	8,475.2	8,619.0	6,576.0	6,176.0
Deposits from nonresidents	7,714.0	7,235.9	7,126.7	5,992.2	5,727.5
Other foreign liabilities	3,569.4	4,188.1	4,526.0	2,952.0	2,343.0
Net domestic assets	9,179.2	10,000.5	10,743.3	10,576.7	10,607.0
Public sector (net)	-1,180.9	-1,216.0	-1,421.8	-1,398.5	-1,134.5
Credit	914.9	767.4	801.3	750.7	759.3
Deposits	-2,095.7	-1,983.4	-2,223.1	-2,149.2	-1,893.8
Private sector credit	11,536.6	12,330.3	13,259.3	12,826.2	12,782.9
Official capital and surplus	596.0	-602.6	-610.1	-617.6	-633.0
Unclassified assets (net)	-835.1	-652.2	-322.4	-9.0	-156.7
Other assets (net)	734.6	944.9	1,162.4	1,247.1	1,181.9
Other items (net)	1,569.7	-1,597.2	-1,484.8	-1,256.1	-1,338.6
Net domestic reserves	254.5	141.0	-161.7	-224.4	-251.6
Domestic currency	21.7	15.6	12.7	3.3	4.1
Net interbank deposits	172.3	74.0	-221.6	-258.8	-299.9
Checks in clearing	68.5	57.8	62.3	39.8	50.2
Cashier's checks in circulation	-8.1	-6.4	-6.4	-8.7	-6.0
Liabilities to private sector	10,474.7	11,506.6	12,436.3	12,320.9	13,095.0
Monetary liabilities	8,217.0	8,951.8	9,805.3	9,875.4	10,304.7
Demand deposits	1,165.3	1,165.9	1,295.6	1,342.3	1,458.0
Time and savings deposits	7,051.8	7,785.9	8,509.8	8,533.0	8,846.8
Time deposits	5,391.4	6,145.3	6,571.6	6,271.4	6,400.0
Savings deposits	1,660.4	1,640.6	1,938.2	2,261.7	2,446.8
Private capital and surplus	2,257.7	2,554.9	2,631.0	2,425.0	2,745.0

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.

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

	1999	2000	2001	2002	2003
(In millions of balboas; end of period)					
Total	10,242	10,801	11,595	10,892	11,103
Commerce	3,746	3,815	3,861	3,112	3,003
Housing	2,432	2,756	2,889	3,019	3,248
Other construction	227	256	323	372	451
Industry	470	509	684	639	588
Personal consumption	2,099	2,307	2,390	2,483	2,560
Financial and insurance enterprises	950	808	1,102	877	832
Agriculture	119	148	144	136	152
Livestock	154	156	164	188	218
Fishing	34	34	36	25	20
Other	11	12	2	41	31
(12-month percentage change)					
Total	16.6	5.5	7.4	-6.1	1.9
Commerce	9.3	1.8	1.2	-19.4	-3.5
Housing	14.5	13.3	4.8	4.5	7.6
Other construction	-1.3	12.8	26.2	15.2	21.2
Industry	1.5	8.3	34.4	-6.6	-8.0
Personal consumption	36.2	9.9	3.6	3.9	3.1
Financial and insurance enterprises	38.3	-14.9	36.4	-20.4	-5.1
Agriculture	-7.8	24.4	-2.7	-5.6	11.8
Livestock	10.8	1.3	5.1	14.6	16.0
Fishing	6.3	0.0	5.9	-30.6	-20.0
(In percent of total credit)					
Total	100.0	100.0	100.0	100.0	100.0
Commerce	36.6	35.3	33.3	28.6	27.0
Housing	23.7	25.5	24.9	27.7	29.3
Other construction	2.2	2.4	2.8	3.4	4.1
Industry	4.6	4.7	5.9	5.9	5.3
Personal consumption	20.5	21.4	20.6	22.8	23.1
Financial and insurance enterprises	9.3	7.5	9.5	8.1	7.5
Agriculture	1.2	1.4	1.2	1.2	1.4
Livestock	1.5	1.4	1.4	1.7	2.0
Fishing	0.3	0.3	0.3	0.2	0.2

Source: Superintendency of Banks.

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

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

	1999	2000	2001	2002	2003
Foreign assets	19.7	19.8	19.7	16.0	15.8
Foreign reserves	6.5	7.3	6.6	5.5	6.1
General license banks	3.8	4.1	4.1	3.2	3.6
Offshore banks 2/	2.7	3.2	2.5	2.4	2.5
Credit to nonresidents	13.2	12.5	13.1	10.5	9.7
General license banks	8.6	8.5	8.6	6.6	6.2
Offshore banks	4.7	4.0	4.5	4.0	3.6
Foreign liabilities	18.9	18.5	18.7	14.9	13.6
Short-term liabilities	0.5	0.4	0.4	0.5	0.3
General license banks	0.6	0.4	0.4	0.2	0.2
Offshore banks	0.0	0.0	0.0	0.3	0.1
Deposits from nonresidents	14.1	13.0	12.8	10.7	10.2
General license banks	7.7	7.2	7.1	6.0	5.7
Banks	5.6	5.0	5.1	3.9	3.2
Nonbanks	2.1	2.2	2.0	2.1	2.5
Offshore banks	6.4	5.8	5.7	4.7	4.5
Other liabilities	4.3	5.1	5.5	3.8	3.1
General license banks	3.6	4.2	4.5	3.0	2.3
Offshore banks	0.8	0.9	0.9	0.8	0.8
Capital and reserves	0.3	0.4	0.4	0.5	0.6

Source: Superintendency of Banks.

1/ Includes offshore operations of international license banks.

2/ Refers to international license banks.

Table 25. Panama: Interest Rate Structure

(In percent)

	1999	2000	2001	2002	2003
Lending rates (less than one year)					
Commercial	9.9	10.0	10.0	8.4	7.5
Industrial	8.6	9.1	9.7	8.8	8.7
Personal	13.3	13.2	12.4	12.2	12.2
Domestic deposit rate (six-month)	6.2	6.5	5.5	3.8	3.7
U.S. prime rate (six-month)	7.9	9.2	6.8	4.7	4.1
LIBOR (six-month)	5.3	6.6	3.1	1.9	1.3
Difference between the deposit rate and LIBOR (percentage points)	0.8	-0.2	2.4	1.9	2.4

Source: Superintendency of Banks.

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

(In millions of balboas)

	1999	2000	2001	2002	2003
I. National Bank of Panama					
Operating profit or loss (-)	105.3	117.2	76.2	104.2	91.2
Operating revenue	145.0	161.5	139.5	130.9	145.1
Net interest	130.4	143.6	120.2	101.6	118.4
Interest receipts (cash)	222.6	251.7	212.2	147.1	147.9
Interest payments accrued	-92.2	-108.1	-92.0	-45.5	-29.5
Noninterest income	14.6	17.9	19.3	29.3	26.7
Operating expenditure	39.7	44.3	63.3	26.7	53.9
Wages and salaries	21.2	22.8	23.1	22.9	23.3
Goods and services	11.9	14.4	14.9	16.0	17.5
Other	6.6	7.1	25.3	-12.2	13.1
II. Savings Bank					
Operating profit or loss (-)	1.9	5.0	4.5	-2.8	2.2
Operating revenue	25.4	31.8	36.2	45.3	51.8
Net interest	21.1	23.4	26.0	32.4	36.0
Interest receipts (cash)	52.9	60.5	68.1	71.9	73.0
Loans	36.8	40.5	46.1	51.8	54.9
Fixed deposits	12.4	15.2	13.3	8.7	5.4
Investments	3.7	4.8	8.7	11.4	12.8
Interest payments accrued (-)	-31.8	-37.0	-42.1	-39.4	-37.1
Noninterest income	4.3	8.3	10.2	12.8	15.9
Operating expenditure (cash)	23.5	26.7	31.7	48.1	49.7
Expenditure	22.5	25.2	28.7	37.9	40.3
<i>Of which</i>					
Wages and salaries	13.2	13.4	14.6	15.6	17.6
Goods and services	...	...	...	...	...
Other	9.4	11.7	14.1	22.3	22.7
Depreciation	-1.6	-2.1	-2.9	-3.2	-3.4
Provisions for bad loans	-0.9	-1.6	-2.9	-10.2	-9.4

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

(In millions of balboas)

	1999	2000	2001	2002	2003
III. National Mortgage Bank					
Operating profit or loss (-) 1/	8.4	4.5	4.4	-0.1	-0.3
Operating revenue	18.5	14.1	13.6	8.7	5.4
Net interest	7.8	8.3	7.4	5.9	5.2
Interest receipts (cash)	13.9	14.0	12.6	10.5	8.3
Loans	13.3	13.3	12.2	10.2	8.0
Fixed deposits	0.5	0.7	0.4	0.1	0.1
Investments	0.1	0.0	0.0	0.2	0.2
Interest payments cash	6.1	5.7	5.2	4.6	3.1
Noninterest income	10.6	5.8	6.2	2.8	0.2
Operating expenditure (cash)	10.1	9.7	9.3	8.8	5.7
Wages and salaries	3.8	4.2	4.1	3.9	3.2
Goods and services	6.2	5.4	5.1	4.9	2.5
Other	0.0	0.0	0.0	0.0	0.0
IV. Agricultural Development Bank.					
Operating profits or losses (-)	-0.8	-0.2	2.0	-0.1	-0.2
Operating revenue	5.0	6.6	8.7	6.3	6.4
Net interest	4.4	6.0	7.6	5.8	6.0
Interest receipts (cash)—loans	7.4	8.3	9.7	9.4	10.5
Interest payments accrued	3.0	2.3	2.2	1.7	1.6
Interest payments cash	..	..	..	..	..
Noninterest income	0.6	0.6	1.1	0.5	0.4
Operating expenditure (cash)	5.8	6.8	6.7	6.4	6.6
Wages and salaries	4.1	4.5	4.6	4.7	4.9
Goods and services	1.0	1.5	1.4	1.6	1.6
Other	0.7	0.8	0.7	0.1	0.1

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

1/ Data for 2003 refer to January–September 2003.

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

(In millions of balboas)

	1999	2000	2001 1/	2002	2003
I. National Bank of Panama					
Total private sector portfolio	533.9	689.3	817.5	968.5	1,155.1
Commerce	58.2	68.4	90.1	116.9	178.5
Agriculture and forestry	99.8	119.9	132.8	141.7	166.9
Personal loans	339.0	450.7	506.8	588.3	672.1
Others	36.9	50.3	87.9	121.6	137.6
Total arrears	10.6	80.3	111.0	89.8	75.7
Commerce	1.7	16.7	17.1	12.7	13.5
Agriculture and forestry	5.0	15.5	20.6	17.8	9.4
Personal loans	2.6	41.5	61.1	46.3	44.8
Others	1.3	6.6	12.2	13.0	8.0
Share of arrears in total portfolio	2.0	11.6	13.6	9.3	6.6
Commerce	2.9	24.4	19.0	10.9	7.6
Agriculture and forestry	5.0	12.9	15.5	12.6	5.6
Personal loans	0.8	9.2	12.1	7.9	6.7
Others	3.5	13.1	13.9	10.7	5.8
Loans with payments overdue	10.6	80.3	111.0	89.8	75.7
Between 30 and 90 days	5.2	43.7	51.7	37.0	36.6
Over 90 days	5.4	36.6	59.3	52.8	39.1
			0.0	0.0	0.0
Percent of total with payments overdue	100.0	100.0	100.0	100.0	100.0
Between 30 and 90 days	49.1	54.4	46.6	41.2	48.3
Over 90 days	50.9	45.6	53.4	58.8	51.7
II. Savings Bank					
Total portfolio	383.6	432.6	500.2	521.2	547.7
Mortgages	297.2	301.3	321.9	334.6	338.7
Personal loans	74.3	94.8	81.5	70.3	84.1
Other (secured) loans	12.1	36.5	96.7	116.4	124.9
Loans overdue	64.5	62.2	68.4	125.1	114.3
Mortgages	53.9	..	..	100.5	92.1
Personal loans	8.1	..	..	11.3	4.0
Other	2.5	..	..	13.3	18.2
Share of arrears in total portfolio	16.8	14.4	13.7	24.0	20.9
Share of arrears in their individual portfolios					
Mortgages	18.1	..	..	30.0	27.2
Personal loans	10.9	..	..	16.1	4.7
Other	20.8	..	..	11.5	14.6

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

(In millions of balboas)

	1999	2000	2001 1/	2002	2003
III. National Housing Bank 2/					
Total portfolio	233.9	193.4	184.7	182.4	177.9
Total arrears	38.6	44.1	54.1	59.3	68.4
Share of arrears in total portfolio	16.5	22.8	29.3	32.5	38.4
IV. Agricultural Development Bank					
Total portfolio	85.3	90.9	100.5	100.8	103.6
Loans overdue	27.4	23.6	28.4	25.9	30.9
Loans overdue as a share of total portfolio	32.1	26.0	28.3	25.7	29.8
Loans with payments overdue	27.4	23.6	28.4	25.9	30.9
Between 30 and 90 days	4.6	2.9	3.1	3.5	3.9
More than 90 days	22.8	20.8	25.4	22.4	27.0
Percent of total with payments overdue	100.0	100.0	100.0	100.0	100.0
Between 30 to 90 days	16.9	12.2	10.8	13.5	12.6
More than 90 days	83.1	87.8	89.2	86.5	87.4

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

1/ In 2001 the Superintendency of Banks introduced a new methodology to determine arrears on commercial bank loans. In previous years only the outstanding installments were recorded as arrears on loans on which scheduled payments had not been made for between 30 and 90 days. For loans more than 90 days overdue, some banks continued to define as arrears 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 Nacional de Panama. End-2000 data have been adjusted to reflect the new standard. In addition, the BNP has also increased its provisioning substantially.

2/ This portfolio includes bad loans related to projects financed through the Ministry of Housing for lower income families. In 2003 data refer to the period through September.

Table 28. Panama: Summary of Balance of Payments

	1999	2000	2001	2002	Jan.-Sept.	
					2002	2003
(In millions of U.S. dollars)						
Current account	-1,159	-689	-174	-104	-210	-518
Trade balance including Colon Free Zone	-1,340	-1,143	-696	-1,037	-867	-946
Exports, f.o.b.	853	1,047	1,079	970	736	733
Imports, f.o.b. (-)	-2,772	-2,705	-2,304	-2,354	-1,743	-1,799
Net exports from Colon Free Zone	578	515	529	346	140	119
Re-export, f.o.b.	4,435	4,791	4,914	4,345	3,206	2,776
Imports, f.o.b. (-)	-3,857	-4,276	-4,384	-3,998	-3,066	-2,657
Services, net	701	854	899	992	719	957
Travel, net	206	269	310	350	255	277
Credit travel	396	458	486	528	389	430
Debit travel	-190	-188	-176	-178	-134	-153
Transportation, net	416	545	537	598	432	594
Colon Free Zone	-242	-269	-290	-275	-213	-179
Panama Canal Authority	698	748	709	778	565	647
Others	-40	66	118	94	80	125
Other services	79	39	52	44	32	86
Income, net	-691	-577	-602	-308	-247	-706
Private sector	-456	-330	-289	20	77	-357
Public sector	-236	-247	-313	-328	-324	-349
<i>Of which</i>						
NFPS interest	-327	-366	-415	-449	-377	-412
Current transfers, net	171	177	226	250	184	177
Capital and financial account	1,364	203	890	95	-56	505
Capital account (public sector grants)	3	2	2	0	0	0
Financial account	1,361	201	889	95	-56	505
Public sector	-64	103	325	349	123	254
Nonfinancial public sector	-63	117	339	321	106	244
Disbursements	630	485	1,219	1,076	611	386
Amortization	-414	-392	-536	-947	-650	-255
Other	-280	24	-345	192	144	113
National Bank of Panama	-6	-6	-7	-8	0	0
Other portfolio flows (net)	5	-8	-7	36	17	10
Private sector, medium and long-term	409	931	-270	-433	-569	317
Direct investment	864	700	405	78	-88	674
Portfolio investment	-546	-96	-743	-27	-76	90
Loans	91	327	69	-484	-405	-447
Short-term flows	1,016	-832	833	179	390	-65
Errors and omissions	-296	395	-301	71	266	418
Overall balance	-91	-91	416	63	-144	293
Financing	91	91	-416	-63	121	69
Net foreign assets of the NBP	82	117	-409	-54	127	76
Net use of Fund credit	-23	-52	-34	-8	-6	-7
Exceptional financing	32	26	27	0	0	0
(In percent of GDP)						
Memorandum items:						
Merchandise exports	7.5	8.8	8.9	7.9	...	...
Merchandise imports	-24.3	-22.7	-19.1	-19.1	...	...
Net exports from Colon Free Zone	5.1	4.3	4.4	2.8	...	...
Current account	-10.2	-5.8	-1.4	-0.8	...	...
Direct foreign investment	7.6	5.9	3.4	0.6	...	...

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

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

(In millions of balboas)

	1999	2000	2001	2002	2003
Nontraditional exports, f.o.b. 1/	197.4	203.5	228.0	192.5	195.4
Food	1.9	1.9	0.8	0.6	5.0
Agricultural products	62.3	50.1	81.9	102.1	114.9
Beverages and tobacco	12.4	31.7	18.1	5.0	5.8
Manufactures	120.8	119.8	127.1	84.8	69.6
Issues of tax credit certificates 1/	34.8	37.5	32.0	23.8	23.7
Food	0.2	0.3	0.1	0.1	0.6
Agricultural products	22.3	23.6	13.0	15.1	19.0
Beverages and tobacco	2.2	6.2	2.7	0.7	0.6
Manufactures	10.1	7.4	16.2	7.8	3.5
Ratio of tax credit certificates to nontraditional exports (in percent)	17.6	18.4	14.1	12.3	12.1

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

1/ Excludes nontraditional exports not benefiting from tax credit certificates.

Table 30. Panama: Direction of Trade 1/

(In percent)

	1999	2000	2001	2002	Jan.-Sept.	
					2002	2003
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0	100.0
Western Hemisphere	70.8	70.3	74.4	73.1	73.0	70.2
United States	42.2	43.3	48.6	45.8	45.0	49.5
Central America and the Caribbean	21.6	20.8	17.9	22.0	23.0	16.4
South America	3.4	2.7	4.0	2.6	3.0	2.2
Other	3.6	3.5	3.9	2.7	2.0	2.1
Europe	23.0	22.9	20.3	22.2	22.0	24.6
Belgium and Luxembourg	4.4	5.2	4.5	4.4	5.0	3.5
Germany	10.7	1.7	3.2	0.9	1.0	0.5
Italy	4.1	3.3	2.7	1.0	1.0	1.3
Sweden	1.1	8.5	3.7	6.1	6.0	5.9
Other	2.7	4.2	6.1	9.8	9.0	13.4
Other countries	6.2	6.8	5.3	4.7	5.0	5.2
<i>Of which</i>						
Exports through the Colón Free Zone	1.9	1.3	1.1	1.3	1.0	1.0
Imports, c.i.f. 2/	100.0	100.0	100.0	100.0	100.0	100.0
Western Hemisphere	61.8	65.6	69.2	65.7	66.7	65.1
United States	35.8	32.7	32.6	33.4	32.3	34.7
Mexico	4.4	3.9	4.0	3.7	3.8	3.8
Central America and the Caribbean	8.4	9.0	11.3	12.3	11.4	14.4
Costa Rica	3.3	3.5	3.6	4.2	4.3	4.8
Trinidad and Tobago	1.2	0.1	0.1	1.3	0.9	0.6
Other	3.9	5.4	7.6	6.8	6.2	9.0
South America	13.2	20.0	21.3	16.3	19.2	12.2
Venezuela	2.9	6.6	5.2	4.2	5.0	2.9
Ecuador	5.3	7.2	7.9	3.3	4.4	0.2
Brazil	1.0	1.1	1.1	1.6	1.5	3.1
Other	4.0	5.1	7.1	7.2	8.3	6.0
Europe	9.7	9.2	8.6	7.7	7.6	8.2
Germany	1.4	1.6	1.7	1.5	1.5	1.6
France	0.7	0.5	1.5	0.6	0.6	0.6
Spain	1.5	1.8	1.7	1.4	1.3	1.6
Italy	0.7	0.7	0.6	0.6	0.6	0.7
Netherlands	0.6	0.6	0.6	0.6	0.6	0.5
United Kingdom	1.0	0.9	0.7	0.6	0.4	0.9
Other	3.8	3.1	1.8	2.4	2.6	2.3
Other countries	28.5	25.2	22.2	26.6	25.7	26.7
<i>Of which</i>						
Imports from the Colón Free Zone	12.5	12.0	12.0	13.0	12.5	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)

	1999	2000	2001	2002	Jan.-Jun.	
					2002	2003
Imports 1/	4,166.1	4,630.2	4,759.5	4,358.3	2,170.8	1,932.2
Textiles and clothing	993.8	1,188.2	1,310.0	1,142.3	558.3	485.9
Beverages and tobacco	129.6	102.3	116.5	144.4	63.8	52.4
Chemical products	604.9	642.6	717.2	672.5	329.0	368.6
Instruments	258.4	272.6	248.4	236.0	118.5	84.5
Machinery and transport goods	1,070.4	1,271.3	1,266.4	1,137.1	604.0	529.1
Other	1,109.0	1,153.2	1,101.0	1,026.0	497.2	411.7
Exports, f.o.b. 1/	4,949.6	5,318.7	5,410.1	4,837.1	2,377.2	2,019.6
Textiles and clothing	1,137.0	1,312.9	1,400.6	1,224.3	581.6	445.0
Beverages and tobacco	162.5	108.2	133.7	146.4	71.2	57.0
Chemical products	815.9	959.5	990.3	921.0	453.3	468.8
Instruments	259.2	278.2	261.4	231.5	117.7	94.2
Machinery and transport goods	1,366.3	1,438.2	1,408.3	1,243.3	636.7	542.2
Other	1,208.7	1,221.7	1,215.8	1,070.6	516.7	412.4
Memorandum item:						
Number of Panamanians employed						
in Colón Free Zone 2/	14,400	14,575	15,300	15,152	15,152	...

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: Composition of Merchandise Exports

(In millions of balboas, unless otherwise specified)

	1999	2000	2001	2002	Jan.–Nov.	
					2002	2003
Merchandise exports, f.o.b. 1/	893.9	965.9	988.7	902.3	699.6	602.8
Petroleum exports	152.3	158.0	134.3	102.0	94.3	...
Nonpetroleum exports, f.o.b. 2/	709.8	779.1	809.0	759.6	572.3	576.6
Bananas						
Value	188.1	159.8	122.1	113.2	86.0	78.0
Volume (millions of boxes)	34.3	29.2	23.6	23.0	17.5	15.8
Unit value per box	5.5	5.5	5.2	4.9	4.9	4.9
Sugar						
Value	14.5	19.9	13.9	15.1	5.4	3.0
Volume (thousands of metric tons)	33.6	69.0	41.1	37.9	15.0	13.2
Unit value per pound	0.2	0.1	0.2	0.2	0.2	0.1
Shrimp						
Value	69.0	59.4	70.3	58.1	41.7	45.8
Volume (thousands of metric tons)	7.6	5.9	6.7	5.7	4.3	5.5
Unit value per pound	4.1	4.6	4.8	4.6	4.4	3.8
Coffee						
Value	20.1	16.0	11.1	9.3	7.4	10.6
Volume (thousands of metric tons)	8.6	7.4	7.0	5.4	4.0	5.9
Unit value per pound	1.1	1.0	0.7	0.8	0.8	0.8
Fishmeal						
Value	5.0	8.2	7.6	4.2	2.3	5.4
Volume (thousands of metric tons)	18.1	29.1	23.6	10.8	4.3	13.8
Unit value per pound	0.1	0.1	0.2	0.2	0.2	0.2
Other seafood						
Value	61.6	81.4	96.0	101.8	71.9	91.2
Volume (thousands of metric tons)	23.1	28.8	32.5	33.0	23.6	28.1
Unit value per pound	1.2	1.3	1.3	1.4	1.4	1.5
Clothing						
Value	21.9	18.0	15.3	12.8	8.4	7.3
Volume (metric tons)	0.7	0.6	0.5	0.5	0.3	0.4
Unit value per pound	14.2	13.6	14.0	11.6	12.7	8.3
Other exports						
Value	329.6	416.4	472.7	445.1	349.2	335.3
Re-exports	31.8	28.8	45.4	40.7	33.0	26.2

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

1/ Including re-exports and adjustments (coverage and valuation). In 2003 petroleum export data are not available.

2/ Excluding re-exports and adjustments (coverage and valuation).

Table 33. Panama: Principal Commodities Shipped Through the Panama Canal
(In thousands of long tons)

Fiscal Year Ended September 30	Atlantic to Pacific				Pacific to Atlantic					
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Total	118,709	114,280	109,188	108,513	106,618	77,116	79,442	83,944	79,310	81,663
Agricultural	42,839	38,988	38,058	37,905	36,081	12,810	12,211	12,655	12,466	13,350
Canned and refrigerated foods	1,385	1,664	1,500	1,567	1,638	5,673	5,995	6,325	6,995	7,848
Grains	40,653	36,685	36,011	35,584	33,857	3,524	2,771	2,714	2,119	1,802
Other	801	639	547	754	586	3,613	3,445	3,616	3,352	3,700
Mining products	18,650	15,641	14,109	16,347	15,644	20,299	21,723	24,932	21,176	21,726
Minerals	150	53	80	113	101	5,127	5,354	7,135	6,301	7,173
Phosphates and fertilizers	13,633	11,596	10,044	10,932	9,301	837	961	1,553	883	1,164
Ores and metals	2,232	2,265	3,041	4,248	4,449	7,710	7,683	9,164	9,326	8,475
Coke and coal	2,635	1,727	944	1,054	1,793	6,625	7,725	7,080	4,666	4,914
Crude oil and petroleum products 1/	20,038	19,978	19,143	16,281	13,172	8,591	7,161	10,886	9,756	7,927
Chemicals	8,311	8,710	7,108	7,454	8,224	2,812	2,800	2,830	1,834	1,637
Manufactures of iron and steel	3,393	3,685	3,612	4,447	5,020	8,440	8,381	5,148	4,693	3,323
Machinery and equipment	622	762	794	890	904	1,689	1,926	2,130	2,315	2,213
Lumber and wood products	5,950	5,603	4,488	2,327	1,799	3,683	3,726	3,455	3,084	3,206
Miscellaneous	18906	20913	21876	22862	25774	18,792	21,514	21,908	23,986	28,281

Sources: Panama Canal authorities; and Fund staff estimates.

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

Table 34. Panama: Travel Receipts and Expenditure, and Number of Visitors

	1999	2000	2001	2002	Jan.-Sep.	
					2002	2003
(In millions of balboas)						
Net travel receipts	202.7	266.6	309.9	350.0	255.2	276.6
Travel receipts	387.2	453.2	485.9	527.8	389.3	430.0
Tourists	169.0	190.8	201.4	218.8	159.5	180.8
Business, official, and education related travel	95.7	95.4	103.0	103.3	80.0	87.0
Travelers in transit and others	122.5	167.0	181.5	205.7	149.8	162.2
Expenditure of						
Panamanians traveling abroad (-)	-184.5	-186.6	-176.0	-177.8	-134.1	-153.4
(In thousands)						
Visitors 1/	445.0	465.7	479.5	493.8	366.0	401.7
Tourists	280.8	311.4	315.2	333.2	241.5	270.0
Business, official, and education related travel	164.2	154.3	164.3	160.6	124.5	131.7
Travelers in transit 2/	502.0	683.4	720.0	793.3	577.7	609.2

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 35. Panama: Public Sector External Debt and Debt Service

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

	1998	1999	2000	2001	2002
Stock of external debt					
Total	3,582.8	3,399.2	3,153.9	2,937.3	2,469.1
Multilateral	1,148.4	1,163.9	1,113.1	1,098.6	1,175.0
IMF	176.8	146.7	90.0	53.9	49.9
IBRD	280.3	297.5	284.3	282.8	286.8
IDB	677.9	698.8	710.7	726.6	795.3
Others	13.5	20.9	28.1	35.4	43.1
Bilateral and guaranteed suppliers	462.2	434.6	380.0	330.2	331.2
Commercial banks	4.1	19.0	12.7	12.5	9.1
Brady bonds	1,968.1	1,781.8	1,648.1	1,496.0	953.8
Debt-service obligations 2/					
Total	633.1	740.9	757.8	950.5	1,394.7
Principal	347.4	413.7	391.4	535.7	946.2
Interest	285.7	327.1	366.3	414.7	448.5
Multilateral	119.0	141.8	175.7	160.3	138.0
Principal	72.3	75.8	106.3	89.3	76.5
Interest	46.7	66.0	69.5	71.1	61.5
Bilateral	108.1	72.6	86.5	83.8	44.4
Principal	85.8	54.2	67.2	67.2	32.6
Interest	22.3	18.5	19.3	16.6	11.8
Commercial banks	68.9	8.7	33.0	7.2	9.8
Principal	65.4	6.4	31.7	6.3	9.3
Interest	3.5	2.3	1.3	0.9	0.5
Brady Bonds	136.7	250.1	196.2	222.2	521.1
Principal	58.3	178.3	120.0	148.3	453.4
Interest	78.4	71.8	76.2	73.8	67.7
Global Bonds	200.3	267.7	266.3	476.9	681.4
Principal	65.5	99.2	66.3	224.6	374.4
Interest	134.8	168.5	200.1	252.4	307.0

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

1/ Includes accrued interest arrears.

2/ Includes imputed charges on overdue obligations.

Table 36. Panama: External Public Debt Indicators

(In percent)

	1998	1999	2000	2001	2002
Debt-service ratios 1/					
In percent of Central Government receipts 2/	40.0	39.4	37.9	51.8	73.0
Principal due	22.0	22.0	19.6	29.2	49.5
Interest due	18.1	17.4	18.3	22.6	23.5
In percent of GDP	5.8	6.5	6.3	7.9	11.3
Principal due	3.2	3.6	3.3	4.4	7.7
Interest due	2.6	2.9	3.1	3.4	3.6
In percent of exports of goods and nonfactor services	19.4	22.6	21.3	26.3	39.1
Principal due	10.6	12.6	11.0	14.8	26.5
Interest due	8.8	10.0	10.3	11.5	12.6
External debt in terms of GDP 3/	48.9	48.9	46.9	51.9	51.6
Multilateral and bilateral 4/	14.7	14.0	12.5	11.8	12.2
<i>Of which</i>					
IMF	1.6	1.3	0.8	0.4	0.4
Other 5/	34.2	34.8	34.4	40.1	39.4
Effective external interest rates on total debt 6/	5.3	5.9	6.5	6.6	7.1

Sources: Office of the Comptroller General and Ministry of Economy and Finance.

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.

4/ Includes insured suppliers' credits.

5/ Includes nonguaranteed suppliers' credits.

6/ Interest rate on outstanding debt at the end of the period.