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December 1, 1993

To: Members of the Executive Board

From: The Acting Secretary

Subject: Panama - Staff Report for the 1993 Article IV Consultation, Review Under Stand-By Arrangement, and Request for Modification and Extension of Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with Panama, a review under its stand-by arrangement, and a request for modification and extension of the stand-by arrangement for Panama, which is tentatively scheduled for discussion on Monday, December 20, 1993. A draft decision appears on pages 16-18.

Ms. Jul (ext. 38611) or Ms. Gold (ext. 37686) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the Inter-American Development Bank (IDB), following its consideration by the Executive Board.

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PANAMA

Staff Report for the 1993 Article IV Consultation, Review Under Stand-By Arrangement, and Request for Modification and Extension of Stand-By Arrangement

Prepared by the Western Hemisphere Department

(In consultation with the Fiscal, Legal, Monetary and Exchange Affairs, Policy Development and Review, and Treasurer's Departments)

Approved by S. T. Beza and J. van Houten

November 30, 1993

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I. Introduction

Discussions for the 1993 Article IV consultation and on a program for 1994 to permit completion of the review and the modification and extension of the present stand-by arrangement (which expires December 23, 1993) were held in Panama City during August 13-26, 1993 and at headquarters during September 25-28, 1993. 1/

On February 24, 1992 the Executive Board approved a 22-month stand-by arrangement (SBA) for Panama in an amount equivalent to SDR 93.7 million (50 percent of quota on an annual basis), together with a purchase under the CCFF (SDR 36.7 million or 36 percent of quota). To date, Panama has made only two purchases under the SBA for a total of SDR 34.9 million because the completion of the first review 2/ has been pending since September 1992, owing to delays in the implementation of structural reforms and the resulting uncertainties for the public finances over the medium term.

In the attached letter to the Managing Director, the authorities describe developments under the present SBA and their economic program for 1994. In support of the program, the authorities have requested an extension of the SBA through September 23, 1994, 3/ in a total amount of SDR 74.17 million, and a rephasing of the purchases. The access remaining under the arrangement (reduced to SDR 39.2 million or 26 percent of quota) will be purchased in four equal amounts, with the first one made available upon completion of the review and approval of the requested extension. Assuming all purchases take place, outstanding Fund credit to Panama would amount to 74 percent of quota at end-September 1994 (Table 1).

The 1992 Article IV consultation with Panama, which is on a standard 12-month cycle, was concluded by the Executive Board on October 5, 1992 (SM/92/172 and SM/92/181). 4/ At that time, Directors noted the satisfactory performance under the SBA and the observance of the performance criteria in the first half of 1992. However, Directors expressed concern that the first review was not concluded and urged the authorities to adopt the actions to ensure that the program remained on track. In particular,

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1/ The staff team consisted of A. M. Jul (Head), J. Gold, M. Torres, J. Levy (EP), A. Tweedie (all WHD), and T. Laursen (PDR).

2/ Two reviews were contemplated under the SBA to be completed no later than end-September 1992 and end-March 1993, respectively.

3/ Presidential elections are scheduled for May 8, 1994 and the new Administration will take office on September 1, 1994.

4/ Panama has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. Relations with the Fund, the World Bank Group, and the Inter-American Development Bank (IDB) are summarized in Appendices I, II, and III, respectively.

Directors urged the authorities to begin implementing the program to reduce public employment without further delay and to restrain increases in wages and other outlays.

II. Developments in 1992-93 and Performance Under the Stand-By Arrangement

The economic recovery initiated in mid-1990 continued in 1992, with real GDP increasing by 8 percent, the rate of unemployment declining to about 13.5 percent, and inflation remaining below 2 percent (Table 2). Real GDP is expected to increase by about 5 percent in 1993 and inflation to decelerate to about 1 percent. The main impetus to growth has continued to come from construction and activity in the Colon Free Trade Zone, followed by financial intermediation and manufacturing.

To achieve a sustainable position of the public finances and increase competitiveness over the medium term, the program (described in EBS/92/20, 2/6/92) contemplated a number of structural reforms to be supported by loans from the World Bank and the IDB and grants from the USAID. These reforms included a public sector voluntary retirement program; the privatization of a number of public enterprises, including the telecommunications company (INTEL), and the shifting of certain public services to the private sector; a public enterprise reform program; reform of the social security system; and trade and price liberalization.

A number of factors have impeded full implementation of the agreed program and have had an adverse impact on the financial position of the public sector, particularly in 1993. Some have stemmed from the Government's lack of a working majority in the National Assembly since the breakup of the elected coalition in April 1991, and others from rulings by the Supreme Court that were adverse to the Government. As a result there have been delays in the approval of the voluntary retirement program and a narrowing of its scope, reinstatement of automatic wage increases and benefits which had been suspended since early 1988, delays and setbacks with respect to the privatization program, and elimination of some petroleum taxes because of a lack of a legal basis.

1. Financial policies

Despite the setbacks in the implementation of structural policies, the public sector position improved in 1992 to a surplus of 1.6 percent of GDP compared with a deficit of 2.5 percent of GDP in the program (Table 3). The better-than-programmed fiscal performance in 1992 mainly reflected lower interest obligations on external debt as the result of a decline in interest rates; higher government revenues resulting from the recovery in economic activity, improvements in tax administration, and the implementation of the first phase of the tax reform 1/ which under the program had been envisaged to be revenue neutral; and lower noninterest current and capital outlays. As a result, and despite lower-than-programmed external financing by US$170 million because of the delays in the implementation of the structural reform program, Panama complied with all quantitative performance criteria under the program in 1992 (Tables 4 and 5).

The public sector wage bill exceeded the programmed level by 7 percent in 1992, but was slightly lower relative to GDP than had been projected in the program because of the faster-than-envisaged economic growth. Public employment increased by about 1,500 employees during 1992, compared with a programmed reduction of some 14,000 employees, not only because of the delays in the implementation of the voluntary retirement and privatization programs, but also because the reduction of employment through attrition was smaller than previously anticipated.

The deficit of the public sector is projected to reach 2.3 percent of GDP in 1993, compared with 1.6 percent of GDP in the program, 2/ mainly as a result of larger wage and wage-related expenditures and lower government revenues mainly because of the elimination of the petroleum taxes noted above; these shortfalls more than offset lower external interest obligations by about 2.9 percentage points of GDP.

The wage bill in 1993 is expected to exceed the original projection by about 20 percent (1.4 percentage points of GDP) because (a) only about 2,300 employees are expected to retire under the voluntary retirement program compared with 11,000 in the program; (b) no positions have been eliminated as a result of privatization compared with 6,000 envisaged in the program, because the bill that provides the general framework for privatization was not approved until June 1992 and the privatization of INTEL was rejected by the Assembly in March 1993; and (c) wage increases of about 0.7 percentage points of GDP not foreseen in the program have resulted from the reactivation of special wage laws by the Supreme Court. Also, a one-time payment 3/ of back wages and benefits accrued in 1988-92 under the special wage laws amounts to about 1.3 percentage points of GDP.

1/ The tax reform approved in December 1991, which is being implemented in three stages during 1992-94, increases the tax rate applied to income up to B 100,000 from 25 percent to 30 percent, and reduces the rates applied to income between B 100,000 and B 500,000 from 42 percent to 30 percent, and for income above B 500,000 from 47.5 percent to 34 percent.

2/ Indicative target under the SBA. Quarterly performance criteria for 1993 were to have been established at the time of the second review.

3/ These payments are being made with negotiable 10-year government bonds which carry a 4 percent interest rate and are redeemable in 20 equal installments.

The Government introduced in 1993 a scholarship program for retraining workers because of its concern about the persistence of a high rate of unemployment. Commitments under this program are projected to add 0.4 percentage points of GDP to current public expenditure. This program will not be extended to 1994.

Notwithstanding the loss of revenue resulting from the elimination of the employees' special contribution of one third of the 13-month salary bonus, the financial position of the Social Security Agency (CSS) has been significantly stronger than envisaged in the program mainly reflecting higher contributions associated with the rapid expansion of income and employment. In addition, and to offset the loss from the elimination of the special contribution, the Assembly extended the regular contributions to the previously exempted 13th-month salary bonus, and the Central Government increased by 2 percentage points the interest rate paid on the CSS's holdings of bonded debt and made a one-time transfer to the CSS in 1993 equivalent to 0.4 percent of GDP. In all, the CSS's overall surplus amounted to 3.1 percent of GDP in 1992 and it is estimated at 2.5 percent of GDP in 1993, compared with 0.9 percent of GDP projected in the program for both years. There was no progress, however, with regard to the elimination of the deficit of the Complementary Fund which is financed by the Central Government. Under the World Bank loan, this deficit (projected to amount to about 0.5 percent of GDP in 1993) was to have been eliminated by end-1993.

The operating surplus of the public enterprises in 1992 was in line with that envisaged in the program, and is expected to remain at about 4.6 percent of GDP in 1993. This is larger than the surplus of 3.5 percent of GDP envisaged in the program because the latter had assumed that the privatization of a number of profitable enterprises, most notably INTEL, would have taken place by 1993. Excluding the effects of privatization assumed in the program, the operating surplus of the enterprises for 1993 would represent a deterioration of about 1 percent of GDP compared with the program. This is a result both of a less favorable revenue performance combined with a higher wage bill and higher nonwage operating expenditures.

The position of the decentralized agencies was broadly as projected in 1992, but is expected to be worse than programmed in 1993 by about 0.5 percent of GDP. The latter deterioration reflects both a higher-than-envisaged wage bill and the scholarship program for retraining implemented by the Human Development Institute (IFARHU) in 1993 and not anticipated originally.

The liquidity of the banking system was strengthened further in 1992, with broad money growing by 24 percent following a 29 percent increase in 1991 (Table 6). The income velocity of money recovered the pre-crisis level in 1991, and continued to decline during 1992. The growth in deposits was more than sufficient to accommodate the continued expansion in private sector credit, and together with a further contraction of credit to the public sector resulted in a 10 percent increase in the net foreign assets of the banking system in 1992. Broad money and credit to the private sector are projected to expand in 1993 by 15 and 16 percent, respectively, with velocity declining further and the net foreign assets increasing by an additional 7.5 percent. As a result of the strong recovery in the liquidity of the banking system, the program of support to commercial banks introduced in 1990 was discontinued in June 1992. 1/

There has been progress in improving the position of some of the public financial institutions. The profits of the BNP increased substantially in 1992 reflecting the resumption of debt-service payments by the Government, implementation of cost-reduction measures, improvement in the quality of its assets, and the accumulation of public sector deposits. The net liquid assets of the BNP are projected to amount to more than B 1 billion at end-1993, compared with B 16 million at end-1989 (Table 7). Also, the operating losses of the Savings Bank (CA) were almost eliminated in the first half of 1993 as a result of the implementation of tighter collection procedures, improvements in loan recovery, and cost-reducing measures. In addition, the capital base of the CA has been strengthened through transfers from the Central Government amounting to B 52 million. However, there has been no improvement in the financial position of the National Mortgage Bank (BHN) and the Agricultural Bank (BDA).

The external current account deficit widened from about 3.5 percent of GDP in 1991 to 5 percent of GDP in 1992 as a result of rapid import growth, which mirrored a strong increase in private consumption as well as in public and private investment. After a sharp recovery in 1990, reflecting a build-up of inventories, growth in private investment accelerated in 1992, which together with the continued rapid expansion in public investment, led to an increase in the investment ratio from 17 percent of GDP in 1990 to 23 percent in 1992. The overall balance of payments recorded a surplus of about US$175 million in 1992, reflecting external financing in connection with the clearance of arrears to multilateral creditors and large inflows of capital to commercial banks.

Exports are projected to decline by about 3.5 percent in 1993 reflecting both a decline in volume, because of the quota imposed by the EC on bananas (Panama's principal export product), as well as in prices. Notwithstanding the decline in exports, the deficit in the current account is not expected to widen relative to GDP in 1993 because the growth of imports has decelerated sharply as the process of restocking has been largely completed. At the same time, the overall balance of payments is projected to shift into a deficit of more than US$300 million mainly because of the delays in multilateral lending.

1/ The program, financed by a USAID grant, consisted of US$108 million deposited by the National Bank (BNP) with commercial banks in the form of certificates. Since July 1, 1992 the funds from maturing certificates are being transferred to the Central Government for designated expenditures such as repayment of U.S. military debt. A total of US$27 million were transferred in 1992 and US$31 million and US$11 million are expected to be transferred in 1993 and 1994, respectively.

Panama does not have an independent exchange rate policy since the U.S. dollar is the legal tender. The balboa, which is used as a unit of account at the rate of B 1 per U.S. dollar, is estimated to have depreciated by some 13 percent in real effective terms during 1990-93 (Chart), reflecting the low inflation in Panama relative to trading partners.

Panama's public external debt amounted to US$5.2 billion at end-1992, of which US$3.2 billion was in arrears (Table 9). Total external debt-service obligations in 1993 are projected to amount to about 10 percent of GDP (28 percent of exports of goods and nonfactor services), of which half constitute interest obligations. Total debt-service payments in 1993 are expected to amount to almost US$240 million (3.7 percent of GDP), with a further accumulation of arrears of US$405 million (6.3 percent of GDP) to creditors with whom rescheduling negotiations are under way. Panama is servicing on time all payments due to multilateral institutions, Paris Club creditors, and the Support Group.

Panama made further progress in 1993 toward normalizing relations with external creditors. Meetings were held with commercial banks in April and September, proposals were presented to bond holders and to Mexico and Venezuela on the restructuring of the petroleum debt, and agreement was reached with some of the nonguaranteed suppliers. The authorities have proposed to pay 25 percent of interest in arrears on bonded debt (exchanging principal and the remaining interest arrears at par), and have provided for partial payment on current interest due to the commercial banks in the 1994 budget. Negotiations with external bond holders are progressing well and discussions with the banks will continue in January 1994. However, little progress was achieved on the petroleum debt as Mexico and Venezuela did not accept Panama's proposals because they considered the repayment period to be too long.

2. Developments in structural reforms

By August 1993, progress in implementing the structural reforms had fallen significantly short of that envisaged in the original program. In addition to the problems encountered with the voluntary retirement program, the privatization of INTEL, and the elimination of the deficit of the Complementary Fund noted above, there were delays with respect to the rest of the privatization program, the public sector reform program, and the liberalization of trade and prices. As a result, the second tranche disbursements from the World Bank's Economic Recovery Loan (ERL) and the IDB's Public Enterprise Reform Loan envisaged in the program to take place in 1992 were still pending.

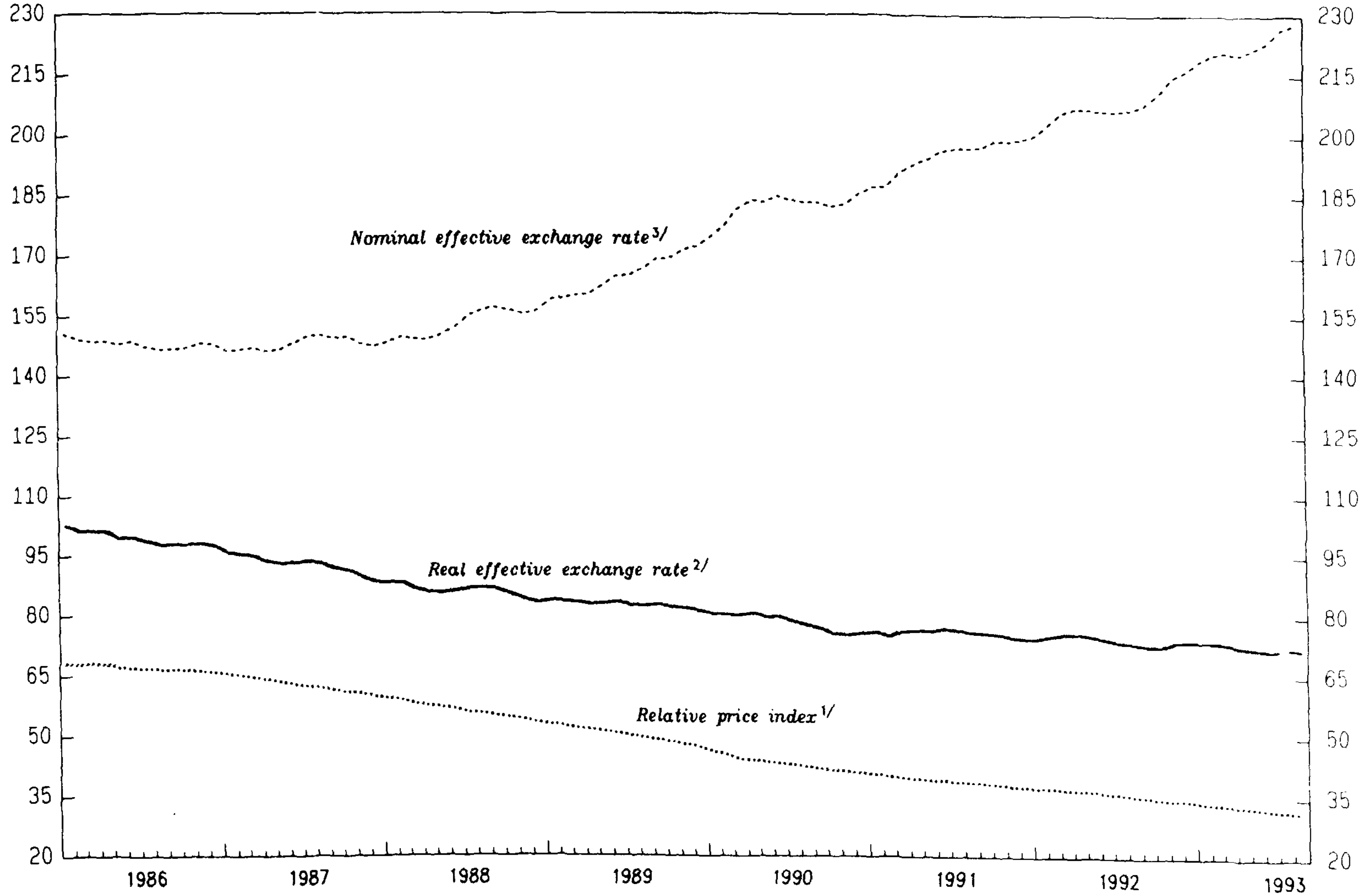
Notwithstanding the passage of the enabling law (Ley Marco) in June 1992, only two small companies, the Atlantic Banana Company (COBANA) and the Pacific Banana Corporation (COBAPA), had been sold; one company, Air Panama, was in the final stages of liquidation, while Citricos de Chiriqui will be brought to the point of sale by end-1993.

CHART 1

PANAMA

EXCHANGE RATE DEVELOPMENTS

(1980=100)



Source: IMF Information Notice System (unless otherwise noted).

1/ Relative prices measured by seasonally adjusted consumer price indices.
2/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increase means appreciation.
3/ Trade-weighted index of nominal exchange rates; increase means appreciation.

The implementation of the enterprise reform program had been slowed down by actions that had reduced the availability of funds to finance the investment programs required to increase the efficiency and reduce costs of the water company (IDAAN), IRHE, and INTEL. These included delays in the implementation of an agreement on intra-public sector transfers; central government arrears on water and electricity bills; transfers required from IRHE and INTEL to finance the scholarship program; and persistence of subsidized water and electricity rates. Also, there were delays in the enactment of revised charter laws for IDAAN and IRHE and in the law to eliminate theft and fraud of public services, as well as in contracting out to the private sector the operation of wharfs at the port of Cristobal (mainly because of resistance from the workers).

On trade reform, after some delays the Government replaced specific with ad valorem tariffs effective July 1, 1993 (which enabled the USAID to release a US$42 million grant that was pending since 1992). However, the level of tariffs remained higher and the use of price controls more widespread than had been agreed with the World Bank, and not enough progress had been achieved with regard to quantitative restrictions on imports.

The Government is continuing its efforts to increase flexibility in the labor markets. It has granted firms in the export-processing zones greater freedom in determining temporary layoffs and is studying changes in other restrictive provisions in the labor code relating to employment termination. In addition, to expedite resolutions of labor disputes and to reduce the uncertainty associated with such disputes, the Government issued new legislation on guidelines for labor courts in January 1993. Following approval by the Assembly, collective bargaining was resumed in January 1993, including provision for the renegotiation of agreements that previously had been renewed automatically. The minimum wage was increased in December 1992 by an average of 21 percent; the previous adjustment had taken place in 1982. The increase did not affect wages significantly because only a small proportion of the private sector labor force was in the range spanned by the old and revised minimum.

III. The Program for 1994

To restore the thrust of the program the authorities have implemented in the context of the 1994 budget measures to increase public sector savings by containing the wage bill and noninterest current expenditures. In addition, starting in September 1993 they have adopted measures to correct some of the slippages in the structural reform program. In this connection, agreement was reached with the World Bank in August 1993 on actions that would permit a one-year extension of the ERL which expires in December 1993, and on modification of the conditions for second and third tranche disbursements by June and December 1994, respectively. Also, agreement was reached with the IDB in November 1993 on actions that would put the IDB's Public

Enterprise Reform Loan on track for second tranche disbursements during the first semester of 1994. Moreover, the authorities will continue efforts to normalize relations with external creditors.

One of the major challenges facing the authorities over the next few years relates to the reversion of the Canal Zone which is to be completed by end-1999. Some property has already been reverted and the next large transfer of property (together with the withdrawal of part of the U.S. military personnel) is scheduled to begin in 1994. In May 1993, the National Assembly created a new agency, the Authority for the Interoceanic Region (ARI), that will be in charge of deciding and managing the future use of the reverted areas. A Board of Directors, largely consisting of private sector representatives, and a general manager have already been appointed.

The program for 1994 is based on real GDP growth of 4 percent and seeks to keep inflation below 2 percent. Investment would increase by about 1 percentage point of GDP to 22 percent in 1994, mainly due to a strong growth in public sector investment. Savings are projected to expand by about 0.7 percent of GDP, with the planned increase in public sector savings more than offsetting a small decline projected in private sector savings. External financing of the public investment outlays is projected to increase from about 0.3 percent of GDP in 1993 to 3.8 percent in 1994, reflecting increased funding from the multilateral institutions (with the release of the second and third tranches from the World Bank loan and the second tranche from the IDB loan, and US$100 million in project financing), and co-financing from Japan.

Agreements on rescheduling of the external bonded debt and the petroleum debt to Mexico and Venezuela are expected to take place in 1994, while a debt-reduction package with commercial banks is envisaged to be concluded in 1994, but with implementation only in early 1995. However, the accumulation of new external interest arrears is projected to decrease from the equivalent of about 3.5 percent of GDP in 1993 to 2 percent in 1994, as payments of current external interest obligations are to increase from US$85 million in 1993 to US$210 million in 1994. The increase reflects partial interest payments to commercial banks and on-time servicing of interest due on the external bonds and petroleum debt after rescheduling. The stock of arrears (principal and interest) is projected to decrease by US$350 million in 1994 to US$3.3 billion, with the total external debt outstanding amounting to US$5.5 billion at end-1994.

The external current account deficit is projected to increase to about 5.8 percent of GDP in 1994, with non-oil exports and imports growing by about 7 percent. The recovery of exports would result from an improvement in prices as well as in volume, as banana exports are not expected to decline further while nontraditional exports would continue to increase at the same pace as in 1993, reflecting improved competitiveness. The interest bill is expected to bottom-out in 1993 and increase by about 11 percent in 1994 while the services of the Colon Free Trade Zone are forecast to continue to expand in 1994 albeit at a lower pace than in 1993. The overall deficit of the balance of payments would narrow to about US$170 million, as a result of an improvement in the capital account as noted above.

1. Public sector finances

The fiscal program for 1994 envisages a strengthening of the public finances as a result of measures to contain public sector wage payments at the 1993 level and efforts to maintain the share of other current expenditures relative to GDP at the 1993 level. The wage bill would decline from about 14.3 percent of GDP in 1993 to 13.6 percent in 1994, but would remain about 2 percentage points of GDP larger than envisaged in the original program. However, external interest obligations are projected to be about 1.8 percentage points of GDP lower than in the original program, and the overall public sector deficit would amount to about 1.7 percent of GDP in 1994 compared with 1.6 percent of GDP in the original program.

To contain the wage bill in 1994 (a) the voluntary retirement program will be extended for one year (through end-1994) and its coverage widened to include all administrative staff; (b) the budget includes no provision for new positions except for a small number in the health and education sectors; (c) employees made redundant by the restructuring of the public enterprises will be forced to retire; (d) new hiring will be limited to only essential services that cannot be provided with existing staff; (e) no wage increases will be granted beyond those required under the special laws (some 3.3 percent over the 1993 level); and (f) the evaluation procedures for public sector employees subject to the special laws will be tightened (already done for INTEL).

To contain wage pressures in the medium term, it will be necessary to reduce automatic wage increases and labor redundancies. A draft bill that introduces a career stream in the public sector, and which will facilitate the modification of the special laws and help identify the areas where labor redundancies exist, was submitted to the Assembly in September 1993. Work on a specific proposal for a new wage scale and modification of some of the special laws is expected to commence in early 1994 and to be ready for submission to the Assembly when the new Administration takes office in September 1994. The authorities also will be contracting out public services to the private sector such as the maintenance of roads.

Government revenues are forecast to decline slightly in 1994 in relation to GDP, mainly because of the continued deceleration in the growth of the central government revenues. This reflects the implementation of the final phase of the tax reform discussed above, the slowdown in imports and reduction of import tariffs, and decreased activity through the Panama Canal.

The overall surplus of the CSS is projected to decline to about 1.8 percent of GDP in 1994 reflecting a decrease in central government transfers, as the one-time transfer to compensate for part of the loss of one third of the 13-month salary bonus mentioned above will not be repeated in 1994. With regard to the Complementary Fund, a study will be initiated shortly with the assistance of the USAID to design an action plan to eliminate the deficit of this Fund over time.

The financial position of the major public enterprises is forecast to remain unchanged in 1994, while that of the public agencies is expected to improve by about 0.4 percent of GDP because, as mentioned earlier, the special scholarship program implemented in 1993 will not be repeated. The outlook for most of the enterprises remains as envisaged in the original program, with some weakening in the position of IDAAN mainly because of delays in the implementation of its reform program. However, the current revenues of INTEL are expected to increase in 1994 as a result of the investment program to expand the number of lines, and notwithstanding a reduction in the rates for international calls which is required to improve competitiveness vis-á-vis international companies.

With regard to the financial public sector, the authorities will begin formulating an action plan by mid-1994 to restructure the BHN and the BDA. In addition, the Government expects to complete shortly the process of documenting its overdraft with the BNP (representing 80 percent of the BNP's total loan portfolio) in order to regularize debt-service payments.

2. Structural reforms

The modified structural reform program agreed with the World Bank and IDB included actions regarding the voluntary retirement program and the elimination of the deficit of the Complementary Fund discussed above; privatization; a plan for INTEL; further strengthening of the financial position of IRHE and IDAAN; rationalization of the electricity tariffs and port and telephone rates; and trade and price liberalization.

The authorities remain committed to privatize the original list of enterprises agreed with the World Bank with the exception of INTEL. During 1994, the Government will bring to the point of sale Cemento Bayano, the assets of the Corporacion Integral del Bayano, and the buildings in the Colon Free Trade Zone. Also, a bill will be submitted to the Assembly shortly to change the charter law of the Agricultural Institute (ISA) to allow participation by the private sector in these activities, and an action plan is being prepared to study the possibility of privatizing the sugar refinery Corporacion Azucarera La Victoria. At the same time, the Government is taking steps to promote private sector participation in the expansion of services of IRHE, IDAAN, and the Port Authority. Total divestment proceeds in 1994 are projected to amount to about 0.7 percent of GDP and will be used entirely to reduce public debt.

With regard to INTEL, the authorities agreed with the IDB on an alternative strategy in lieu of privatization. The strategy involves the establishment of a regulatory framework for the telecommunication industry; the opening of the market to competition from the private sector in specific areas such as cellular phone service; a review of the tariff schedule to reduce cross subsidization between the consumer and commercial markets and between domestic and foreign services; and the incorporation of INTEL.

The Government also agreed with the IDB to (a) settle the central government debts with IRHE and IDAAN; (b) require no transfers from these enterprises until they have consolidated their financial position; (c) eliminate the subsidized electricity tariffs or compensate IRHE for the subsidies; and (d) auction the concessions for two wharfs at the port of Cristobal by the end of the year. In addition, the revised charter law for IDAAN is expected to be approved by the Assembly before the end of the year.

On trade reform, in September 1993 quantitative restrictions on the main agricultural products were replaced by tariffs, and tariff rates on imports of agricultural inputs and final goods were unified. By June 1994, the import tariffs for the main agricultural products will be substantially reduced from the present range of 30-100 percent, and by December 1994 import tariffs will be reduced to a maximum of 40 percent for industrial goods and 50 percent for agroindustrial goods. Also, in September 1993 the Government eliminated price controls on those agricultural goods for which quantitative restrictions were replaced by tariffs. In addition, in December 1993 the prices of a list of industrial products will be liberalized and the use of data collection requirements as a mechanism for price control will be phased out.

3. Performance criteria

The program described in the attached letter from the authorities maintains the following performance criteria of the original program: (i) quarterly ceilings on the net borrowing requirements of the nonfinancial public sector; (ii) quarterly ceilings on the changes in the National Bank's net credit to the nonfinancial public sector; (iii) quarterly ceilings on the changes in the National Bank's net domestic assets; and (iv) semiannual ceilings on short- and medium-term foreign borrowing.

A review of the progress in the implementation of the program would take place no later than June 19, 1994. There will also be two reviews regarding external financing associated with the program, to be conducted no later than March 19, 1994 and September 19, 1994, respectively.

IV. Medium-Term Outlook and Capacity to Repay the Fund

1. Medium-term outlook

Table 10 presents revised projections for the medium-term macroeconomic flows, which mainly reflect the effects of lower external interest obligations, a higher public sector wage bill, and larger public sector investment outlays when compared with the projections presented in EBS/92/172 (9/2/92).

The baseline scenario reflects the adjustment efforts as well as the assumptions on external financing described above (including partial interest payments to commercial banks starting in 1994), but does not include the implementation of a debt- and debt-service reduction package with the banks. The medium-term projections also are based on the maintenance of the broad policy thrust of the program in subsequent years, and the continued implementation of structural reforms.

The overall public sector deficit is projected at 2 to 2.5 percent of GDP through 1997. Private sector investment is expected to stabilize at about 17 percent of GDP compared with 13 percent in the mid-1980s, and economic growth is projected at around 4 percent a year. The relatively high level of private investment is based on an anticipated favorable response by the private sector to the reduction in price distortions and more intense domestic competition, as well as to the increased investment opportunities created by the privatization program and the public enterprise reform program.

The external current account deficit is forecast to remain at about 5.5 percent of GDP through 1997, with exports and imports growing at some 7 and 6 percent a year, respectively, with the non-oil import coefficient increasing from 26.5 percent of GDP in 1993 to 27.5 percent by 1997. External interest obligations would rise from 5.0 percent of GDP in 1993 to 5.5 percent by 1997 as debt to commercial banks continues to accumulate and international interest rates are assumed to increase from 3.5 percent in 1993 to almost 5 percent by 1996. The financing gap (equivalent to the accumulation of interest arrears) would decrease from 3.5 percent of GDP in 1993 to about 2.5 percent of GDP by 1995 and successive years. The external debt would remain at about 80 percent of GDP through 1997, while the debt-service obligations would amount to about 24 percent of the exports of goods and nonfactor services.

The alternative scenario assumes implementation of a debt-reduction package 1/ with commercial banks at the beginning of 1995. Reflecting this operation, the external interest obligations are projected to be lower by the equivalent of 2 percentage points of GDP and, as a result, the financing gap would be eliminated in 1995. In addition, the stock of public debt in relation to GDP would decline to below 60 percent by 1997 and the debt-service ratio would fall to about 16 percent.

1/ For illustrative purposes, it was assumed that the debt-reduction package would consist of three options: (a) a buyback in the amount of US$1.1 billion (or one third of the outstanding arrears) at a discount similar to the one prevailing in the secondary market; (b) a discount exchange; and (c) a temporary interest-reduction exchange. The three options were constructed to have roughly a similar market value. Also, it was assumed that the past due interest would be normalized partly through a cash downpayment, partly by inclusion in the buyback option, and partly through a bond carrying market interest rates.

2. Capacity to repay the Fund

Panama's debt-service obligations, excluding those to commercial banks, are projected to decline from 17.5 percent of public sector revenue in 1993 to 12 percent in 1996 but to increase to 15 percent in 1997 (Table 11). On the basis of the access proposed under the stand-by arrangement, Fund credit outstanding is projected to reach SDR 111 million (74 percent of quota) at the end of the program period, significantly less than the 127.5 percent of quota in the original program because of a reduction in access of SDR 19.6 million and the increase in quota. The resulting repurchases and interest charges will peak in 1996 (at about 27 percent of quota) although they are projected to be small in relation to total debt service due (about 9 percent) and in relation to public sector revenue (about 2.5 percent). The staff is of the view that provided performance under the extended stand-by arrangement is satisfactory, the groundwork will have been laid for restoring a viable external payments position. On this basis, Panama should be in a position to discharge fully its financial obligations to the Fund in a timely manner.

V. Staff Appraisal

The economic program implemented over the past three years has resulted in a significant strengthening of the public finances and has served to restore confidence and produce a substantial improvement in Panama's economic situation. Private sector investment increased markedly, the rate of unemployment fell, and the economy has been experiencing a broad-based recovery. In addition, Panama has made progress in re-establishing relations with external creditors through a major reduction of arrears which led to the resumption of bilateral and multilateral credit flows, and more recently has been engaged in discussions with commercial and other creditors.

Economic performance in 1992 was satisfactory, with real GDP growing at a significantly faster pace than envisaged in the program while inflation remained low. Panama observed all quantitative performance criteria under the stand-by arrangement and made progress toward external viability. However, there were slippages in the implementation of the structural reform program, in part because of political constraints. This weakened the prospects for the public finances and resulted in shortfalls in foreign financing in 1992 and 1993.

Public sector performance in 1992 was significantly better than had been expected because of a strong growth in revenue, resulting both from the faster pace of economic activity as well as from positive effects of a tax reform which had been expected to be revenue neutral, and because of lower external interest obligations stemming from a decline in interest rates. Also, the finances of the Social Security Agency were better than envisaged in the program notwithstanding legislative action that affected adversely the revenue position of the agency.

The setbacks in the implementation of the structural reform program caused the fiscal outcome in 1993 to be weaker than expected under the program despite lower external interest obligations. Delays in the implementation of the voluntary retirement program and a narrowing of its scope, together with setbacks and slow progress in the privatization program, resulted in a public employment level well in excess of that programmed. Moreover, the reinstatement of automatic wage increases and past benefits suspended since 1988 served to push the public sector wage bill above the levels envisaged in the program and added to expenditures in 1993 in the form of a substantial one-time payment.

To restore the thrust of the program, the authorities have implemented, in the context of the 1994 budget, measures to contain the wage bill in absolute terms at the 1993 level and to maintain noninterest current expenditures at the 1993 level relative to GDP. In addition, the pace of structural reform has been accelerated starting September 1993, reflecting compliance with the actions required to resume disbursements under the World Bank and IDB loans in 1994. These included measures on trade and price liberalization, privatization, public enterprise reform, and the deficit of the Complementary Fund. These actions and those envisaged for 1994 are essential to achieve the program's fiscal objectives in 1994 and to improve resource allocation and external competitiveness over the medium term.

The action taken to contain the wage bill in 1994 is an interim step and more fundamental measures need to be implemented to reduce wage pressures over the medium term. The authorities' submission of a draft bill for introducing a career stream in the public sector is a positive development, particularly because it requires that a new general wage law be prepared as it will permit limitation of automatic wage increases by modifying the special laws. It is important that a specific proposal for a new wage scale and modification of the public sector special laws be ready for submission to the Assembly when the new Administration takes office in September 1994. In addition, the bill provides the framework for a description of public service positions which should help the authorities in identifying labor redundancies. Also, it is necessary that efforts to reduce public employment through attrition continue and be strengthened.

The finances of the public financial institutions have improved further, with considerable progress attained as regards the National Bank and the Savings Bank. In this connection, the liquidity position of the banking system, and in particular that of the National Bank, recovered strongly, reflecting the restoration of private sector confidence in the system and resulting in a rapid recovery and expansion of financial intermediation. As a result, the special program of support to commercial banks initiated in 1990 has been discontinued. However, the National Mortgage Bank and the Agricultural Development Bank have not been successful in improving their financial positions to date and the authorities should proceed promptly to formulate an action plan to restructure or divest these institutions.

To strengthen the public finances and attain fiscal viability over the medium term, the authorities need to implement without further delays a plan to eliminate the deficit of the Complementary Fund. In addition, and in order to restore a sustainable external position, the authorities should strive to conclude in 1994 negotiations on a debt reduction package with commercial banks and on rescheduling agreements with other creditors. Moreover, the reversion to Panama of the Canal Zone area, with its effects on economic activity, employment, and the public sector finances constitutes a very important challenge and the authorities need to implement an action plan promptly to minimize disruptions and maximize its economic and social return.

The authorities' policies for 1994 represent an effort to bring the program back on track and achieve fiscal viability over the medium term. The implementation of a set of prior actions in the area of structural reform starting in the latter part of 1993 are a positive indication of the authorities' commitment to restore the basic thrust of the program. It should also be noted that measures being implemented in the context of the 1994 budget and the actions in the area of trade and price liberalization represent difficult decisions in an election year.

It is recommended that the next Article IV consultation with Panama be held on the standard 12-month consultation cycle.

VI. Proposed Decision

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

1. Panama has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Panama (EBS/92/20, Supplement 2) and paragraph 25 of the letter dated January 27, 1992 from the Second Vice-President and Minister of Planning, the General Manager of the National Bank of Panama, and the Comptroller General of Panama, in order to review progress under the program and establish quantitative performance criteria for the remaining period of the stand-by arrangement.

2. The letter from the Minister of Planning and Economic Policy, the General Manager of the National Bank of Panama, and the Comptroller General, dated November 26, 1993 shall be attached to the stand-by arrangement for Panama, and the letter of January 27, 1992 shall be read as supplemented and modified by the letter dated November 26, 1993.

3. Panama has also requested an extension of its current stand-by arrangement through September 23, 1994, in a total amount of SDR 74.17 million, together with a rephasing of the purchases. The Fund approves this request.

4. Accordingly, the following provisions of the stand-by arrangement for Panama are amended to read as follows:

(i) Paragraph 1 shall read:

"For a period of 31 months from February 24, 1992, Panama will have the right to make purchases from the Fund in an amount equivalent to

SDR 74.17 million subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund."

(ii) Paragraph 2(a) shall read:

"Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 44.7 million until March 20, 1994, the equivalent of SDR 54.57 million until June 20, 1994, the equivalent of SDR 64.37 until September 20, 1994."

(iii) Paragraph 4 shall read:

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

(i) the ceiling on the net borrowing requirements of the nonfinancial public sector; or

(ii) the limit on the cumulative changes of the National Bank's net credit to the nonfinancial public sector; or

(iii) the limit on cumulative changes in the net domestic assets of the National Bank; or

(iv) the limit on the public sector's net disbursements of new debts with maturities of over one year and on maturities of less than one year, specified in Tables 1, 2, 3, and 4, respectively, and paragraph 23 of the letter of November 26, 1993 are not observed; or

. . .

(c) after June 19, 1994, until the review contemplated in paragraph 24 of the letter dated November 26, 1993 has been completed with regard to appropriate evaluation of the progress made under the program; or

(d) after March 19, 1994 and after September 19, 1994, respectively, until completion of a review of the external financing of the program, provided that no such review will be necessary after the Fund finds that satisfactory arrangements have been reached on the external financing of Panama's program."

5. The Fund finds that the review contemplated in paragraph 4(b) of the stand-by arrangement has been completed and that Panama may proceed to make purchases in accordance with the arrangement, as amended.

Table 1. Panama: Projected Fund Position During Stand-By Arrangement

	1993				1994 Projections		
	Actuals			Proj.			
	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-March	April-June	July-Sept.
	(In millions of SDRs)						
Purchases	--	--	--	9.8	9.8	9.8	9.8
Stand-by arrangement 1/	--	--	--	9.8	9.8	9.8	9.8
CCFF	--	--	--	--	--	--	--
Repurchases	2.1	1.6	2.1	1.6	0.9	--	--
Fund exposure	77.7	76.1	74.0	82.2	91.1	100.9	110.7
	(In percent of quota)						
Fund exposure	51.9	54.9	49.5	54.9	60.9	67.4	74.0

Source: Fund staff estimates.

1/ Ordinary resources. Amounts may not add due to rounding.

Table 2. Panama: Selected Economic Indicators

	Averages 1988-89	1990	1991	1992 Prog. 1/	1992 Act.	1993 Prog. 1/	1993 Rev. Prog.	1994 Proj.
(Annual percent changes)								
Production and prices								
GDP at current prices	-6.8	9.3	9.7	7.1	9.2	7.1	7.0	5.0
GDP at constant 1980 prices	-7.6	4.6	9.3	5.0	8.0	5.0	5.0	4.0
GDP deflator	1.4	4.5	0.4	2.0	1.1	2.0	2.0	1.0
Consumer prices index (end of year)	0.6	0.8	1.1	2.0	1.6	2.0	1.2	1.5
Unemployment rate (urban areas, in percent)	16.3	18.0	15.7	...	13.6	...	...	...
Real GDP per capita	-10.0	2.8	7.5	2.7	6.2	2.7	3.1	2.1
(Percent of GDP)								
National accounts								
Gross domestic investment	5.2	17.1	18.0	16.6	22.7	17.8	20.7	21.9
Public sector	1.5	0.8	2.2	3.9	3.5	3.9	4.2	4.9
Private sector	3.8	16.3	15.8	12.7	19.2	13.9	16.5	17.0
Gross national savings	9.9	14.8	14.4	12.6	17.2	13.8	15.0	15.7
Public sector	-5.9 2/	-1.9	0.6	1.3	4.6	2.3	1.5	2.7
Private sector	15.7	16.7	13.8	11.2	12.6	11.5	13.5	13.0
Fiscal accounts								
Revenue and grants	23.5	28.9	30.4	31.8	32.9	31.3	31.2	30.6
Expenditures	34.6	31.5	31.7	34.2	31.3	32.9	33.5	32.3
Current	33.4	30.8	29.5	30.4	27.8	29.0	29.3	27.5
Capital	1.2	0.8	2.2	3.9	3.5	3.9	4.2	4.9
Savings	-9.9	-1.9	0.6	1.3	4.6	2.3	1.5	2.7
Overall balance	-11.1	-2.6	-1.3	-2.5	1.6	-1.6	-2.3	-1.7
(In percent of initial stock of liabilities to the private sector)								
Money and credit								
Net domestic assets of the banking system	-14.6	-7.6	7.8	2.9	12.5	...	12.9	7.1
Public sector (net)	-1.7	-15.7	-4.7	-4.6	-2.9	...	-4.2	-2.4
Private sector	-11.9	6.9	17.9	7.5	19.4	...	15.9	7.8
Liabilities to the private sector	-16.4	24.5	25.4	7.9	23.7	...	16.2	9.3
(In percent of GDP)								
External current account	7.1	-2.3	-3.4	-4.0	-5.1	-4.0	-5.1	-5.8
External debt	106.5	107.0	101.0	94.8	86.4	93.3	83.4	81.0
(In millions of U.S. dollars)								
External current account deficit (-)	321.0	-114.5	-185.8	-220.8	-306.7	-238.2	-326.7	-389.2
Overall balance of payments deficit (-)	-1,076.9	-212.5	-312.5	212.4	159.3	-287.9	-315.3	-169.7
Net foreign assets of the National Bank	-28.9	260.6	376.8	529.2	377.6	...	471.3	521.3
(In percent of exports of goods and nonfactor services)								
Debt service	65.5	40.2	35.4	35.6	29.7	33.6	27.8	24.3
(Annual percent change)								
Real effective exchange rate	-4.7	-7.5	-0.8	...	-1.8	...	-2.0	-2.0

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

1/ Program presented in EBS/92/20 (2/6/92).

2/ Public sector savings in the national accounts include the accrued annual revenue blocked abroad in 1988 and 1989; this revenue is not included in the computation of savings in the fiscal accounts.

Table 3. Panama: Operations of the Nonfinancial Public Sector

	Average 1988-89	1990	1991	1992 Prog. 1/	1992 Act.	1993 Prog. 1/	1993 Rev. Prog.	1994 Proj.
			(In millions of balboas)					
Revenue and grants of the public sector	1,069.4	1,430.2	1,672.6	1,755.0	1,973.8	1,852.5	2,004.5	2,062.1
General government	919.0	1,255.0	1,419.5	1,482.8	1,638.9	1,625.5	1,675.8	1,731.3
Central Government	536.6	850.2	989.9	1,009.8	1,102.9	1,127.0	1,141.5	1,179.2
Social Security Agency	349.4	354.6	380.0	420.1	484.1	441.9	476.9	498.4
Decentralized agencies	33.0	50.3	49.6	52.9	51.9	56.6	57.4	53.7
Operating balance of public enterprises	125.8	187.8	224.0	257.4	282.1	205.7	293.5	292.3
Balance of nonconsolidated public sector	24.6	-21.8	14.9	6.2	15.3	8.7	12.6	11.5
Grants	--	4.9	--	6.0	8.7	10.0	2.0	1.0
Capital revenues	--	4.3	14.2 2/	2.6	28.8	2.6	20.5	26.0
Expenditure of consolidated public sector	1,573.7	1,560.7	1,744.9	1,891.5	1,878.6	1,945.7	2,152.1	2,179.0
Current expenditure of general government	1,516.6	1,523.1	1,624.2	1,678.5	1,670.0	1,716.8	1,884.6	1,851.2
Central Government	992.6	973.7	1,014.2	1,018.9	1,008.0	1,042.7	1,126.9	1,802.7
Social Security Agency	443.5	469.1	519.6	573.5	563.7	591.8	614.8	654.2
Decentralized agencies	80.5	80.3	90.4	86.1	98.3	82.4	142.9	114.3
Capital expenditure	57.1	37.6	120.7	213.0	208.6	228.9	267.5	328.1
Public sector savings	-447.2	-97.2	34.3	73.9	275.0	133.1	99.4	185.2
Overall surplus or deficit (-)	-504.3	-130.6	-72.3	-136.5	95.2	-93.3	-147.6	-116.9
Accrued revenues blocked abroad	150.0	--	--	--	--	--	--	--
Financing	354.3	130.6	72.3	136.5	-95.2	93.3	147.6	116.9
External (net)	-901.1	-138.7	-308.9	494.0	291.0	-105.0	-208.4	48.1
Of which: blocked accounts	-150.0	180.9	--	137.0	137.0	--	--	--
Domestic 3/	34.2	-229.4	-77.2	-155.4	-55.9	-251.7	-47.7	-110.9
Of which: BNP	-3.7	-382.3	-191.0	-160.4	-128.9	-266.7	-197.3	-133.2
Arrears	1,221.3	498.7	458.3	-202.1	-330.3	450.0	403.7	179.7
Domestic	73.4	-55.0	-28.6	-35.0	-55.0	-45.0	--	--
External	1,147.9	553.8	486.9	-167.1	-275.3	495.0	403.7	179.7
			(Percent of GDP)					
Public sector revenue and grants	23.5	28.5	30.4	31.8	32.9	31.3	31.2	30.6
Of which:								
General government revenue	20.2	25.1	25.8	26.8	27.3	27.5	26.1	25.7
Operating balance of public enterprises	2.8	3.7	4.1	4.7	4.7	3.5	4.6	4.3
Public sector expenditure	34.6	31.2	31.7	34.2	31.3	32.9	33.5	32.3
Public sector wage bill	...	15.3	14.4	14.5	14.2	12.6	14.3	13.6
Public sector external interest obligations	...	8.7	7.8	7.7	5.5	7.7	4.8	5.1
Of which: arrears	...	6.7	5.3	5.8	3.7	5.3	3.5	2.0
Current expenditure	33.4	30.4	29.5	30.4	27.8	29.0	29.3	27.5
Capital expenditure	1.2	0.8	2.2	3.9	3.5	3.9	4.2	4.9
Public sector savings	-9.9	-1.9	0.6	1.3	4.6	2.3	1.5	2.7
Overall deficit (-)	-11.1	-2.6	-1.3	-2.5	1.6	-1.6	-2.3	-1.7

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

1/ Program presented in EBS/92/20 (2/6/92).
2/ Includes payments of tax arrears accumulated in 1988-89 by Chiriqui Banana Company.
3/ Includes sales of assets and residual.

Table 4. Panama: Performance Under the Stand-By Arrangement in 1992

(Flows from end-1991 in millions of balboas; unless otherwise specified)

	March	June	September	December
Balance of nonfinancial public sector 1/				
Floor	60	100	120	160
Actual	128	209	241	288
Margin	68	109	121	128
Change in the National Bank's net credit to the nonfinancial public sector				
Ceiling	10	-25	-110	-140
Adjusted ceiling 2/	114	72	-85	-113
Actual	101	15	-88	-129
Margin	13 3/	57 3/	3 3/	16 3/
Change in net domestic assets of the National Bank				
Ceiling	15	-10	-85	-115
Adjusted ceiling 2/	119	87	-60	-88
Actual	90	14	-81	-89
Margin	29	73	21	1
Net disbursement of credits of less than one-year maturity				
Ceiling	...	10	...	10
Actual	...	--	...	--
Margin	...	10	...	10
Net disbursements of medium- and long-term credits				
Ceiling	...	30	...	70
Actual	...	1	...	1
Margin	...	29	...	69
Decrease in stock of domestic arrears (flows from end-1989)				
Target	...	90	...	120
Actual	...	135	...	135
Margin	...	45	...	15

Source: Data provided by the Panamanian authorities.

1/ On a cash basis.
2/ Adjusted to take into account Panama's increased contribution to the clearance of arrears to multilateral institutions because of loan disbursement delays and small divergences with the program assumptions in respect of total financing and the valuation of arrears. The ceilings were adjusted downward for the unpaid amount corresponding to obligations to domestic bond holders.
3/ The difference between the margins in the balance of the nonfinancial public sector and the change in the National Bank's net credit to the nonfinancial public sector is due to the delays in the disbursement of US$42 million in grant budgetary support (for which ceilings were not adjusted), as well as (in March 1992) an unanticipated reduction in the Central Government's floating debt.

Table 5. Panama: Public Sector Financing Requirement and Prospective Sources

(In millions of U.S. dollars)

		1991	1992 Prog.1/	1992 Act.	1993 Prog.1/	1993 Rev. Prog.	1994 Proj.
I.	Balance of the nonfinancial public sector (deficit -) 2/	-72	-137	95	-93	-148	-117
II.	Principal obligations paid 3/	-157	-166	-134	-160	-164	-166
	External	-157	-136	-127	-130	-149	-148
	Multilateral institutions (IFIs)	-150	-108	-105	-101	-96	-95
	Paris Club	--	-21	-16	-22	-20	-19
	Other	-7	-7	-6	-7	-33	-34
	Domestic	--	-30	-7	-30	-15	-18
III.	Payments of nonmultilateral arrears	-29	-74	-93	-45	--	-54
	Paris Club	--	-39	-38	--	--	--
	External bonds	--	--	--	--	--	-27
	Petroleum debt	--	--	--	--	--	-27
	Domestic	-29	-35	-55	-45	--	--
IV.	Budgetary financing requirement (I + II + III)	-258	-377	-132	-298	-312	-337
V.	Clearance of arrears to multilateral institutions	--	-132	-164	--	40	--
	Arrears outstanding	--	-638	-645	--	--	--
	Blocked accounts	--	137	137	--	--	--
	U.S. contribution	--	130	130	--	--	--
	Other countries' contributions	--	43	23	--	40	--
	Japan cofinancing with IBRD 4/	--	50	48	--	--	--
	U.S. bridge loan	--	146	143	--	--	--
VI.	Repayment of U.S. bridge loan	--	-146	-143	--	--	--
VII.	Total financing requirement (IV + V + VI)	-258	-655	-439	-298	-272	-337
VIII.	Sources of financing	258	655	439	298	272	337
	U.S. budgetary support	--	84	42	--	42	--
	Financing by IFIs	--	306	209	120	14	136
	Japan confinancing with IBRD	--	30	--	30	--	60
	Project financing	1	40	4	30	19	99
	Net use of deposits with BNP	-191	-160	-129	-267	-197	-133
	Accumulation of interest arrears to commercial banks and other nonmultilateral creditors 5/	317	320	224	340	224	133
	Other 6/	132	35	89	45	177	42

Sources: Panamanian authorities; and Fund staff estimates.

1/ EBS/92/20 (2/6/92)

2/ On an accrual basis.

3/ Other principal obligations are assumed to be rolled over.

4/ The first tranche of the Japan cofinancing (US$48 million) was utilized to clear Panama's arrears to the IDB.

5/ Includes non-Paris Club bilateral creditors and suppliers. The program figures for 1992 (US$320 million) and 1993 (US$340 million) would have been reduced in accordance with any agreement between Panama and commercial bank creditors. Any reduction in the accumulation of arrears will be reflected in a lower accumulation of public sector deposits with the BNP.

6/ Includes government certificates issued to reduce public sector arrears (US$30 million in 1991 and US$35 million in 1992), certificates for payment of back wages (US$80 million in 1993), and divestment proceeds (US$51 million in 1994). Also includes repayments by local commercial banks of U.S. AID liquidity support which was transferred to the Government in June 1992.

Table 6. Panama: Summary Operations of the Banking System 1/

	December					June		Proj. 2/	
	1988	1989	1990	1991	1992	1992	1993	1993	1994
	(In millions of balboas)								
Net foreign assets 3/	-378.6	-255.3	584.0	1,191.1	1,575.9	1,062.5	1,655.8	1,694.6	1,757.9
National Bank	-55.8	-1.9	260.7	376.8	377.6	321.6	456.7	471.3	521.3
Other	-322.8	-253.5	323.3	814.3	1,198.3	740.9	1,199.2	1,223.3	1,236.6
Net domestic assets	3,191.3	2,968.4	2,782.8	3,019.3	3,491.6	3,406.2	3,707.7	4,099.4	4,489.9
Public sector (net) 4/	505.8	444.7	61.3	-83.1	-193.3	-66.5	-386.7	-391.8	-524.7
Private sector	2,751.6	2,562.3	2,729.9	3,274.9	4,016.4	3,702.8	4,526.7	4,767.0	5,196.0
Other assets (net)	-66.1	-38.6	-8.3	-172.4	-331.5	-230.0	-432.4	-275.8	-181.4
U.S. AID facility	--	--	36.8	108.4	82.9	112.1	67.0	55.0	26.0
Long-term foreign liabilities	216.9	234.1	248.7	246.5	226.9	229.3	216.4	216.3	188.3
SDR allocation	35.4	34.6	37.4	37.6	36.2	37.6	36.9	36.8	36.8
Liabilities to domestic private sector	2,560.3	2,444.4	3,043.9	3,818.0	4,721.6	4,089.7	5,043.2	5,485.9	5,996.7
Monetary liabilities	1,889.3	1,808.4	2,387.9	3,082.0	3,823.6	3,339.6	4,094.4	4,390.0	4,791.3
Demand deposits	299.3	300.9	422.1	547.8	633.1	511.3	599.1	724.9	761.2
Time and savings deposits	1,590.1	1,507.5	1,965.8	2,534.2	3,190.5	2,828.3	3,495.3	3,665.1	4,030.1
Time deposits	1,155.2	1,103.9	1,510.5	1,935.0	2,461.4	2,175.1	2,695.7	2,819.4	3,099.8
Savings deposits	434.9	403.6	455.3	599.2	729.1	653.3	799.6	845.7	930.2
Private capital and surplus	671.0	636.0	656.0	736.0	898.0	750.1	948.8	1,095.9	1,205.5
	(In percent of GDP)								
Net domestic assets	77.2	66.4	57.4	52.8	54.2	51.7	55.4	59.1	63.7
Of which:									
Public sector (net)	11.3	10.2	5.1	-0.2	-2.3	-1.1	-3.5	-4.6	-6.8
Private sector	66.1	57.3	52.8	54.6	60.7	55.2	64.1	68.4	73.9
Liabilities to private sector	66.6	53.9	54.8	62.4	71.1	61.5	71.1	79.5	85.2
Monetary liabilities	48.1	39.9	41.9	49.8	57.5	49.6	57.9	64.0	68.1
Private capital and surplus	18.5	14.1	12.9	12.7	13.6	11.9	13.2	15.5	17.1
	(12-month change in relation to liabilities to the private sector at the beginning of the period)								
Net domestic assets	-20.5	-8.7	-7.6	7.8	12.4	16.0	6.4	12.9	7.1
Of which:									
Public sector (net)	-0.9	-2.4	-15.7	-4.7	-2.9	-0.2	-6.8	-4.2	-2.4
Private sector	-16.4	-7.4	6.9	17.9	19.4	20.4	17.5	15.9	7.8
	(Percentage change over previous 12-month period)								
Liabilities to domestic private sector	-28.3	-4.5	24.5	25.4	23.7	24.2	23.3	16.2	9.3
Monetary liabilities	-25.5	-4.3	32.0	29.1	24.1	27.7	22.6	14.8	9.1

Source: National Bank of Panama; National Banking commission; Savings Bank; and Fund staff estimates.

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/ Based on revised program flows.
3/ Excludes use of Fund credit.
4/ The difference between changes in BNP's net claims on the public sector between end-1990 and end-1991 and changes in the banking sector's net claims on the public sector reflects the conversion of some public sector entities deposits in the Savings Bank to capital.

Table 7. Panama: Operations of the National Bank 1/

(In millions of balboas)

	December				June		1992		Proj. 3/	
	1988	1989	1990	1991	1992	1993	Prog. 2/	Act.	1993	1994
Net liquid assets	-4.1	16.2	562.7	820.9	736.0	1,017.9	971.0	827.9	1,020.2	1,142.1
Liquid assets	123.9	137.6	681.0	932.4	879.0	1,142.2	...	953.0	1,151.2	1,290.1
Of which: bank deposits	80.6	67.0	613.5	849.9	836.6	1,087.0	...	890.7	1,120.0	1,198.4
Short-term foreign liabilities	128.0	121.3	118.4	111.5	143.0	124.3	...	125.1	131.0	148.0
Net domestic assets	504.4	460.6	55.7	-128.6	-115.0	-401.4	-262.0	-217.8	-374.7	-484.1
Net credit to the public sector	345.6	338.4	-40.1	-231.1	-216.1	-552.1	-391.5	-360.0	-557.3	-690.5
Assets	868.2	1,032.7	1,064.8	1,035.2	1,021.6	994.8	...	1,016.5	1,006.1	982.1
Liabilities	-522.6	-694.2	-1,104.9	-1,266.3	-1,237.8	-1,546.9	...	-1,376.5	-1,563.4	-1,672.6
Credit to the private sector	300.5	284.0	247.5	234.4	253.7	311.8	261.4	288.4	340.3	364.1
Other assets	-141.7	-161.9	-151.6	-131.8	-152.5	-161.1	-131.8	-146.1	-157.7	-157.7
Liabilities to the private sector	166.9	160.8	194.3	217.4	220.7	237.0	228.4	227.4	250.2	262.7
Demand deposits	25.7	33.8	45.9	52.9	55.7	53.6	...	54.5	56.9	59.6
Savings deposits	30.1	28.1	33.4	42.1	49.0	63.3	...	56.5	66.3	72.1
Time deposits	111.1	98.9	115.0	122.4	116.1	120.0	...	116.4	127.0	131.0
Long-term foreign liabilities	216.7	224.0	226.8	225.2	208.4	205.4	225.2	207.1	205.3	205.3
Liabilities to local banks	116.7	92.0	164.7	237.5	179.7	174.1	255.5	175.5	190.0	190.0
Credit from U.S. AID for economic reactivation	...	...	32.6	12.3	12.3	--	--	--	--	--
Drawings	...	...	36.8	96.1	99.8	67.0	...	82.9	55.0	26.0
Certificates of deposit in other banks	...	...	-4.2	-96.1	-99.8	-67.0	...	-82.9	-55.0	-26.0
Reactivation account	...	...	--	12.3	12.3	...	...	...		

Source: National Bank of Panama.

1/ The National Bank's accounts in this table are arranged to identify the net liquid asset position and the net domestic assets as defined in Table 3 of the letter of intent.
2/ Changes from the numbers presented in Table 7 of EBS/92/20 reflect program flows from a revised base at end-1991.
3/ Based on revised program flows.

Table 8. Panama: Balance of Payments

(In millions of U.S. dollars)

	1990	1991	1992 Prog. 1/	1992 Act.	1993 Prog. 1/	1993 Rev. Prog.	1994 Proj.
Current account 2/	-114.5	-185.8	-220.8	-306.7	-238.2	-326.7	-389.2
Balance of goods and services	-212.4	-298.3	-308.4	-430.4	-328.3	-454.1	-519.6
Trade balance	-830.7	-1,037.6	-1,133.2	-1252.8	-1,183.0	-1,404.7	-1,517.8
Nonpetroleum exports 2/	477.6	485.0	395.2	515.1	418.9	496.4	531.7
Net petroleum imports	-149.5	-168.4	-141.8	-186.0	-153.7	-193.0	-222.0
Nonpetroleum imports	-1,158.8	-1,354.1	-1,386.6	-1581.9	-1,448.2	-1,708.0	-1,827.5
Freight and insurance	-77.0	-98.8	-104.2	-140.3	-138.5	-158.7	-169.3
Transportation	416.8	451.8	446.1	437.8	470.8	466.5	486.2
Travel	72.8	87.2	89.0	81.9	100.3	94.3	102.4
Investment income	-464.7	-453.4	-435.9	-312.1	-468.2	-285.1	-317.3
Of which: public debt interest	-441.6	-435.0	-424.7	-338.6	-457.9	-315.9	-349.7
Other services	670.4	752.5	829.8	755.1	890.3	833.6	896.2
Colon Free Zone	298.0	355.3	454.5	407.8	496.1	457.6	496.8
Rest of the world	372.4	397.2	375.3	347.3	394.2	376.0	399.4
Unrequited transfers	97.9	112.5	87.5	123.7	90.2	127.4	130.4
Capital account	-98.0	-126.7	433.2	482.3	-49.7	11.8	219.5
Official capital	17.9	-186.5	387.7	196.1	-147.9	-216.2	8.0
Nonfinancial public sector	27.1	-182.5	387.7	212.5	-147.9	-202.8	8.0
Drawings	118.3	85.5	560.3	358.2	127.2	101.2	254.4
Repayments	-272.1	-268.0	-309.6	-282.7	-275.1	-304.0	-246.4
Blocked funds	180.9	--	137.0	137.0	--	--	--
Official bank, other long-term	-9.2	-4.0	--	-16.4	--	-13.4	--
Private capital 3/	-115.9	59.8	45.5	286.2	98.2	228.0	211.5
Of which: domestic commercial banks	-576.8	-491.0	-22.5	383.7	-43.8	-125.0	-95.0
Overall balance	-212.5	-312.5	212.4	175.6	-287.9	-314.9	-169.7
Financing	212.5	312.5	-212.4	-175.6	287.9	314.9	169.7
Net foreign assets of the BNP	-262.4	-116.2	-152.4	-0.8	-250.0	-93.7	-50.0
Rescheduling 4/	149.8	31.9	7.8	8.4	--	0.0	531.8
Net use of Fund credit 5/	-82.0	-57.8	106.2	83.0	42.9	5.0	40.2
Arrears 4/	407.1	454.6	-174.0	-266.2	495.0	403.6	-352.2
Of which: IMF	19.9	--	-249.8	-252.8	--	--	--
Memorandum item							
Current account balance (in percent GDP)	-2.3	-3.4	-4.0	-5.1	-4.0	-5.1	-5.8

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

1/ Program presented in EBS/92/20 (2/6/92).
2/ Reflects major upward revisions of banana exports for 1990 and 1991.
3/ Includes errors and omissions.
4/ Reflects assumed restructuring of external bonds and debt to Mexico/Venezuela.
5/ Excluding operations to reduce arrears which are shown below.

Table 9. Panama: Public Sector External Debt and Arrears, and Debt-Service Obligations

(In millions of U.S. dollars)

	End-1992		End-June 1993	1993			1994		
	Stock of Debt	Stock of Arrears	Stock of Arrears	Principal	Interest 1/	Total	Principal	Interest 1/	Total
Total	5182.8	3236.0	3439.8	326.2	315.9	642.2	247.7	349.7	597.4
Multilateral institutions									
IMF	111.0	--	--	8.8	6.6	15.5	1.3	8.7	9.9
IBRD	297.5	--	--	51.3	26.4	77.7	52.2	22.7	74.9
IDB	415.8	--	--	34.3	23.7	58.0	40.4	33.2	73.6
IFAD	12.1	--	--	1.4	1.0	2.4	1.4	1.4	2.8
Bilateral 2/	759.0	175.4	194.5	53.5	48.3	101.8	38.9	45.0	83.9
Of which: Support Group	72.3	--	--	20.0	3.9	23.9	20.0	8.5	28.5
Commercial banks (medium and long term)	2965.7	2531.4	2668.7	99.8	175.0	274.8	99.6	205.0	304.6
External bonds	352.5	286.8	327.8	65.7	20.7	86.4	0.0	19.6	19.6
Suppliers' credits	80.2	53.4	58.8	11.4	5.7	17.1	13.9	4.4	18.3
Other 3/	189.0	189.0	190.0	0.0	8.5	8.5	0.0	9.7	9.7
Memorandum items									
Nonfinancial public sector									
Debt service/GDP (in percent)				5.1	4.9	10.0	3.7	5.2	8.9
Debt service in relation to exports of goods and non-factor services (in percent)				14.1	13.7	27.8	10.1	14.2	24.3

Sources: Panamanian authorities; and Fund staff estimates.

1/ Includes imputed late interest charges.
2/ Includes Mexico and Venezuela.
3/ Includes obligations on money market facilities of BNP.

Table 10. Panama: Medium-Term Projections

	1990	1991	1992	1993	1994	1995	1996	1997
				Projections				
			(In percent of GDP)					
			I. Baseline Scenario					
Public sector balance 1/	-2.6	-1.3	1.6	-2.3	-1.7	-2.1	-2.3	-2.5
Savings	-1.9	0.6	4.6	1.5	2.7	2.6	2.4	2.3
Investment and net lending	0.8	2.2	3.5	4.2	4.9	4.9	4.9	5.0
Primary surplus	7.0	7.2	7.8	3.2	3.9	3.7	3.6	3.4
Interest	9.6	8.6	6.1	5.4	5.7	5.8	6.0	6.0
Of which: external 2/	8.7	7.8	5.5	4.8	5.1	5.2	5.4	5.4
Private sector balance	0.4	-2.0	-6.6	-2.9	-4.1	-3.6	-3.3	-2.9
Savings	16.7	13.8	12.6	13.5	13.0	13.4	14.2	14.6
Investment	16.3	15.8	19.2	16.5	17.0	17.0	17.5	17.5
External current account	-2.3	-3.4	-5.1	-5.1	-5.8	-5.7	-5.6	-5.3
Financing gap 3/	6.7	5.8	3.7	3.5	2.0	2.5	2.5	2.5
Memorandum items								
Debt/GDP (in percent)	107.0	101.0	86.4	83.4	81.8	82.4	82.2	80.7
Debt service ratio (in percent)	40.2	35.4	29.7	27.8	24.3	22.2	21.8	23.6
Non-oil imports/GDP (in percent)	23.1	24.6	26.4	26.6	26.6	27.1	27.4	27.6
Interest rate (6-month LIBOR)	8.4	6.1	3.9	3.5	4.1	4.7	4.8	4.8
			II. Debt-Reduction Scenario					
Interest	9.6	8.6	6.1	5.4	5.7	3.8	4.0	4.1
Of which: external	8.7	7.8	5.5	4.8	5.1	3.2	3.4	3.4
Public sector balance	-2.6	-1.3	1.6	-2.3	-1.7	-0.1	-0.4	-0.6
Of which: savings	-1.9	0.6	4.6	1.5	2.7	4.6	4.4	4.3
External current account	-2.3	-3.4	-5.1	-5.1	-5.8	-3.7	-3.6	-3.3
Financing gap 3/	6.7	5.8	3.7	3.5	2.0	--	--	--
Memorandum items								
Debt/GDP (in percent)	107.0	101.0	86.4	83.4	81.8	62.5	60.7	57.7
Debt-service ratio (in percent)	40.2	35.4	29.7	27.8	24.3	13.6	13.8	16.3
Non-oil imports/GDP (in percent)	23.1	24.6	26.4	26.6	26.6	27.1	27.4	27.6
Interest rate (6-month LIBOR)	8.4	6.1	3.9	3.5	4.1	4.7	4.8	4.8
			(Annual percent changes)					
Exports (non-oil)	9.4	1.5	6.2	-3.6	7.1	8.0	7.6	7.0
Exports of goods and nonfactor services	10.2	7.5	2.4	5.1	6.5	7.2	7.1	7.0
Imports (non-oil)	44.2	16.9	16.8	8.0	7.0	6.0	6.0	6.0
Imports of goods and nonfactor services	37.3	14.1	16.3	7.0	6.0	7.2	6.4	6.0

Sources: Data provided by Panamanian authorities; and Fund staff estimates.

1/ Includes capital revenues (see Table 3).
2/ Nonfinancial public sector.
3/ Equivalent to unpaid interest obligations.

Table 11. Panama: Indicators of Fund Credit

	1990	1991	1992	Projections 1993	1994	1995	1996	1997
Outstanding Fund exposure (end of period)								
In millions of SDRs	242.2	201.4	79.8	82.0	111.2	86.0	50.6	28.4
In percent of quota	237.0	197.1	53.3	54.8	74.3	57.5	33.8	19.0
In percent of GDP	7.0	5.0	1.8	1.8	2.3	1.7	0.9	0.5
In percent of exports of goods and nonfactor services	18.9	13.8	5.0	5.0	6.3	4.6	2.5	1.3
Debt service due to the Fund								
In millions of U.S. dollars	118.7	95.3	26.5	15.5	9.9	45.2	56.7	35.5
In percent of quota	86.0	69.1	12.6	7.4	4.7	21.6	27.2	17.1
In percent of exports of goods and nonfactor services	6.5	4.9	1.2	0.7	0.4	1.7	2.0	1.2
In percent of public sector receipts	7.8	5.4	1.3	0.8	0.5	2.1	2.5	1.5
In percent of public sector current expenditures	7.8	5.9	1.9	1.0	0.6	2.8	3.3	2.0
In percent of total debt service due	14.9	12.6	4.1	2.4	1.7	7.7	9.2	5.0
Debt service ratios								
In percent of GDP								
Total	16.1	13.8	10.9	10.0	8.9	8.3	8.3	9.2
Total (excluding commercial banks)	8.8	7.2	6.2	5.6	4.2	3.6	3.7	4.7
Multilaterals	5.8	4.6	2.9	2.4	2.4	2.4	2.5	2.3
Of which: IMF	2.4	1.7	0.4	0.2	0.1	0.6	0.8	0.5
In percent of exports of goods and nonfactor services								
Total	40.2	35.4	29.7	27.8	24.3	22.3	21.8	23.6
Total (excluding commercial banks)	22.1	18.5	16.8	15.5	11.5	9.8	9.7	12.2
Multilaterals	14.6	11.7	7.9	6.6	6.5	6.5	6.6	5.9
Of which: IMF	5.9	4.4	1.2	0.7	0.4	1.7	2.0	1.2
In percent of public sector receipts								
Total	52.8	43.4	32.2	31.4	28.2	26.7	26.8	29.7
Total (excluding commercial banks)	28.9	22.7	18.3	17.5	13.4	11.7	11.9	15.3
Multilaterals	19.2	14.3	8.6	7.5	7.6	7.8	8.1	7.3
Of which: IMF	7.8	5.4	1.3	0.8	0.5	2.1	2.5	1.5

Sources: Panamanian authorities; and Fund staff estimates.

Panama: Projected Payments to the Fund as at October 31, 1993

(In millions of SDRs)

	Overdue	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchases	--	0.7	0.9	25.6	35.8	10.2	--	--	--	--	--	--	73.2
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	1.3	4.7	4.4	2.8	1.2	1.0	1.0	1.0	1.0	1.0	--	19.4
Total obligations 2/	--	2.0	5.7	30.0	38.5	11.4	1.0	1.0	1.0	1.0	1.0	--	92.6
(Percent of quota)	--	1.3	3.7	20.0	25.7	7.6	0.6	0.6	0.6	0.6	0.6	--	61.8
Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	12.3	19.6	7.4	--	--	--	--	39.2
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	--	1.0	2.0	1.9	1.8	1.1	0.2	--	--	--	--	8.1
Total obligations	--	--	1.0	2.0	1.9	14.1	20.7	7.6	--	--	--	--	47.3
(Percent of quota)	--	--	0.6	1.3	1.2	9.4	13.8	5.0	--	--	--	--	31.6
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	0.7	0.9	25.6	35.8	22.4	19.6	7.4	--	--	--	--	112.4
b. ESAF/SAF repayments	--	--	--	--	--	--	--	--	--	--	--	--	--
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	1.3	5.7	6.4	4.7	3.1	2.1	1.2	1.0	1.0	1.0	--	27.5
Total obligations 2/	--	2.0	6.6	32.0	40.5	25.5	21.7	8.6	1.0	1.0	1.0	--	139.9
(Percent of quota)	--	1.3	4.4	21.4	27.0	17.0	14.5	5.7	0.6	0.6	0.6	--	93.4

Source: Treasurer's Department, IMF.

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF, and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

Fund Relations with Panama
(As of October 31, 1993)

I. Membership Status: Joined: 3/14/46; Article VIII

II. General Resources Account:	SDR Million	% Quota
Quota	149.60	100.0
Fund holdings of currency	210.91	141.0
Reserve position in Fund	11.86	7.9

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	26.32	100.0
Holdings	1.99	7.6

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by arrangements	39.43	24.4
CCFF	36.70	24.5

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	2/24/92	12/23/93	93.68	34.85
Stand-by	7/15/85	3/31/87	90.00	90.00
Stand-by	6/24/83	12/31/84	150.00	150.00

VI. Projected Obligations to Fund (SDR million; based on extension of program to September 30, 1994):

	Overdue	Forthcoming				
	10/31/93	1993	1994	1995	1996	1997
Principal		0.7	0.9	25.6	35.8	22.4
Charges/interest		1.3	5.7	6.4	4.7	3.1
Total		2.0	6.6	32.0	40.5	25.5

VII. Exchange Rate Arrangement:

Except for fractional coins, there is no issue of local currency in Panama. The balboa is used as a unit of account at a rate of B 1 per U.S. dollar. The currency of the United States (notes and coins) is legal tender in Panama. Panama's exchange system is free of restrictions on payments and transfers for current international transactions.

VIII. Last Article IV Consultation and Recent Contacts:

The 1992 Article IV consultation was concluded by the Executive Board on October 5, 1992 (SM/92/172 and SM/92/181). A mission visited Panama City during November 30-December 15 to try to conclude the first review of the stand-by arrangement. A mission also visited Panama during March 20-April 2 to assist the authorities in their preparation for a meeting with the banks' advisory committee and a Panamanian delegation visited Washington on April 15 prior to that meeting. Panama is on the standard 12-month consultation cycle.

IX. Technical Assistance:

a. FAD: The mission visited Panama in April and November 1992 to identify areas to improve financial reporting and public expenditure control.

b. STA: The mission visited Panama in May 1992 to improve balance of payments statistics.

X. Resident Representative:

None.

Financial Relations of the World Bank Group with Panama

(In millions of U.S. dollars)

IBRD Lending Operations As of July 31, 1993	IBRD Disbursed	Undisbursed
	(Amount less cancellation)	
Total	565.64	60.00
Power	187.18	
Agriculture	35.08	
Transportation	97.78	
Industry	21.02	
Urban development	27.02	
SAL	170.03	60.00
Water supply and sewerage	23.03	
Technical assistance	4.50	
Principal payments 1/	368.15	
Debt outstanding 2/	266.83	
Commitments CY 1993	--	
Disbursements CY 1993	--	
IFC commitments	10.00	
Recent economic and sector mission	The Bank approved on February 20, 1992 an Economic Recovery Loan for US$120 million of which the first tranche of US$60 million has been disbursed. Disbursement of the second tranche has been delayed. Following the satisfactory implementation of an agreed set of structural reform measures, the Bank's staff is proposing to the Executive Board an extension of the ERL, which expires at the end of 1993, to the end of 1994.	

Source: World Bank.

1/ Including repaid to third parties.
2/ Exchange rate adjusted.

Financial Relations of the Inter-American Development Bank with Panama

(In millions of U.S. dollars)

IDB Lending Operations As of September 16, 1993	IDB Disbursed	Undisbursed
	(Amount less cancellation)	
Total	115.4	212.0
Power	15.3	38.9
Agriculture	1.8	1.7
Transportation	10.1	29.9
Education	2.8	29.4
Urban development	6.7	29.4
Water supply and sewerage	22.1	3.9
Technical assistance	6.6	8.8
SAL (Public Enterprise Reform)	50.0	70.0
Principal payments 1/	--	
Debt outstanding 2/	395.5	
Commitments CY 1993	230.0 3/	
Disbursements CY 1993	10.4	
Recent economic and sector mission	The IDB approved on August 5, 1992 a loan for a Public Enterprise Reform Program for US$120 million of which the first tranche of US$50 million has been disbursed. Disbursement of the second tranche has been delayed. A mission visited Panama in October 1993 and an agreement on revised conditions for the second and third disbursements has since been concluded.	

Source: Inter-American Development Bank.

1/ Including repaid to third parties.
2/ Exchange rate adjusted.
3/ Of which US$36 million is expected to be committed in December 1993.

Panama--Basic Data

Social and demographic indicators	
Area	77,082 sq. kilometers
Population (mid-1992)	2.5 million
Population density	32.3 per sq. km.
Rate of population growth (1987-92)	1.8 percent
Crude birth rate (1991)	22.0 per 1,000
Crude death rate (1989)	5.2 per 1,000
Infant mortality rate (age under 1, 1991)	18.0 per thousands
Population per physician (1991)	871
Population per hospital bed (1991)	320
Urban population with access to safe water (1990)	84 percent
Rural population with access to safe water (1990)	68 percent
Electricity consumption per capita (1992)	0.92 KWH/hab.
Per capita protein intake (1988-90)	88 percent of daily requirement
Per capita intake of calories (1989)	2,269 per day
Nutritionally deficient population in schools (1989)	24 percent
Adult literacy rate (1990)	88.1 percent
Unemployment rate (urban areas, estimates for mid-1992)	13.6 percent
GDP (1992)	US$6,020 million
GDP per capita (1992)	US$2,419

	1990	1991	Prel. 1992	Proj. 1993
Origin of GDP (1980 prices)		(percent)		
Agriculture and mining	10.6	10.3	10.1	...
Industry and construction	10.9	12.7	14.5	...
Commerce, restaurants, and hotels	13.6	13.8	13.6	...
Oil pipeline	1.9	1.6	1.1	...
Panama Canal Commission	8.4	8.1	7.4	...
Financial services	7.6	7.9	8.5	...
Public administration	14.1	13.2	12.6	...
Other services	32.9	32.4	32.2	...
Ratios to GDP				
Exports of goods and nonfactor services	39.9	39.1	36.7	36.0
Imports of goods and nonfactor services	34.9	36.3	38.7	38.7
Current account of the balance of payments	-2.3	-3.4	-5.1	-5.1
Public sector revenue	28.9	30.4	32.9	31.2
Public sector expenditure	31.5	31.7	31.3	33.5
Public sector saving	-1.9	0.6	4.6	1.5
Public sector overall surplus or deficit (-)	-2.6	-1.3	1.6	-2.3
External debt (end of year)	107.0	101.0	86.4	83.4
External debt service	16.1	13.8	10.9	10.0
External debt service (in percent of exports of goods and nonfactor services)	40.2	35.4	29.7	27.8
Gross national savings 1/	14.8	14.4	17.2	15.0
Gross domestic investment	17.1	18.0	22.7	20.7
Money and quasi-money (end of period)	41.9	49.8	57.5	64.0
Annual percentage changes in selected economic indicators				
Real GDP per capita	2.8	7.5	6.2	3.1
Real GDP	4.6	9.3	8.0	5.0
GDP at current prices	9.3	9.7	9.2	7.0
Domestic expenditures (at current prices)	14.6	12.3	14.6	7.8
Consumption	-2.5	10.4	9.3	9.8
Fixed investment	81.5	13.4	37.9	-2.9
Public sector revenue	32.1	16.9	18.0	1.6
Public sector expenditure	-2.8	11.8	7.7	14.6
Public sector current expenditures	-1.8	6.6	2.8	12.9
GDP deflator	4.5	0.4	1.1	2.0
Consumer price index (period average)	0.6	1.6	1.8	1.0
Money and quasi-money	32.1	29.1	24.1	14.8

	1990	1991	Prel. 1992	Proj. 1993
Interest rates (period average)		(percent)		
Commercial lending rate (one-year)	12.0	11.8	10.6	10.0
Deposit rate (six-month)	8.4	8.4	7.7	5.0
Net domestic assets of the banking system 2/	-7.6	7.8	12.4	12.9
Credit to public sector (net)	-15.7	-4.7	-2.9	-4.2
Credit to private sector	6.9	17.9	19.4	15.9
External debt	2.3	2.8	5.0	3.3
Non-oil merchandise exports (f.o.b., in U.S. dollars)	9.4	1.5	6.2	-3.6
Merchandise imports (f.o.b., in U.S. dollars)	42.5	14.3	18.4	10.9
Nominal effective exchange rate (end of period, depreciation -)	7.3	7.3	9.4	...
Real effective exchange rate (end of period, depreciation -)	-7.5	-0.8	-1.8	-2.0
Public sector finances		(millions of balboas)		
Revenue and grants-in-aid	1,430.2	1,672.6	1,973.8	2,004.5
Expenditure	1,560.7	1,744.9	1,878.6	1,884.6
Current account surplus or deficit (-)	-97.2	34.3	275.0	99.4
Overall surplus or deficit (-)	-130.6	-72.3	95.2	-147.6
External financing (net) 3/	415.1	178.0	16.0	195.3
Internal financing (net)	-284.4	-105.8	-110.9	-47.7
Balance of payments		(millions of U.S. dollars)		
Non-oil merchandise exports (f.o.b.)	477.6	485.0	515.1	-496.4
Merchandise imports (f.o.b.)	-1,383.1	-1,581.2	-1,872.4	-2,077.2
Nonfactor services (net)	1,083.0	1,192.7	1,134.5	1,225.7
Investment income (net)	-464.7	-453.4	-312.1	-285.1
Transfers (net)	97.9	112.5	123.7	127.4
Balance on current accounts	-114.5	-185.8	-306.7	-326.7
Official capital (net)	17.9	-186.5	196.1	-216.2
Private capital and errors and omissions (net)	-115.9	59.8	286.2	228.0
Overall balance	-212.5	-312.5	175.6	-314.9
Financing	212.5	312.5	-175.6	314.9
National Bank of Panama	-262.5	-116.1	-0.8	-93.7
Rescheduling	149.8	31.9	8.4	--
Arrears	407.1	454.6	-266.2	403.6
Net use of Fund credit	-82.0	-57.8	83.0	5.0
Net foreign assets	(millions of U.S. dollars; end of period)			
National Bank of Panama (net)	260.6	376.8	377.6	471.3
Commercial banks (net)	323.3	814.3	1,198.3	1,199.2

IMF data (as of July 31, 1993)	
Article VIII status	
Intervention currency and rate	U.S. dollar at B. 1.00 per U.S. dollar
Quota	SDR 149.6 million
Fund holdings of balboas	SDR 210.9 million
From Fund resources	SDR 76.1 million
Credit tranche purchases (including SBA)	SDR 34.9 million
CFF purchases	SDR 36.7 million
From Supplementary and Enlarged Access resources	SDR 2.5 million
Supplementary financing facility	--
Enlarged Access resources	SDR 2.5 million
Fund holdings as percent of quota	141.0
Special Drawing Rights Department	
Cumulative SDR allocation	SDR 26.3 million
Net acquisition or utilization (-) of SDRs	SDR -24.7 million
Holdings of SDRs	SDR 2.0 million
Share of profits from gold sales	US$5.7 million
Gold distribution (fine ounces)	30,808

1/ Does not include public sector capital income.
2/ In relation to liabilities to the private sector at the beginning of the period.
3/ Includes arrears of foreign interest and blocked funds abroad.

Panama City, Panama
November 26, 1993

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Camdessus:

1. Since taking office in December 1989, the Government of Panama has been implementing an economic program aimed at fostering economic recovery and re-establishing relations with domestic and external creditors. In support of the Government's policies, and following the clearance of arrears to the Fund, on February 24, 1992 the Executive Board of the International Monetary Fund approved a 22-month stand-by arrangement together with a purchase under the CCFF.

2. The program for 1992-93 aimed at sustaining the economic recovery that began in mid-1990 through the establishment of a more favorable environment for private sector investment by reducing the size and improving the efficiency of the public sector, by eliminating price distortions and increasing competition in the domestic economy, and by normalizing relations with external creditors. Increased public and private investment outlays were to be financed by larger domestic savings, private capital inflows, and disbursements from the multilateral institutions. The public sector position was to be improved, reducing the deficit to the equivalent of 1.6 percent of GDP by 1993, and achieving equilibrium by 1994-95, after implementation of a debt and debt-service reduction package with commercial banks.

3. To achieve a sustainable position of the public finances and increase competitiveness over the medium term, the program contemplated a number of structural reforms to be supported by policy loans from the World Bank and the Inter-American Development Bank (IDB), and by grants from USAID. These reforms included a voluntary retirement program that would reduce public employment by about 9 percent (11,000 positions) by the end of the program period; the privatization of a number of state enterprises--including the telecommunications company (INTEL)--and the shifting of certain public services to the private sector so as to cut public employment by an additional 6 percent (7,000 positions); a public enterprise reform program aimed at increasing efficiency and improving savings through the tightening of collection procedures, cost reduction, and the introduction of productivity and efficiency norms; a reform of the social security system; and trade and price liberalization.

4. A number of factors mostly outside the control of the Government, have impeded full implementation of the program during 1992-93. These stemmed mainly from the fact that the Government has lacked a working majority in the National Assembly since the breakup of the elected coalition in April 1991, and also have reflected some rulings by the Supreme Court. Following initial delays in the privatization program (the bill that provided the necessary general framework was not approved by the Assembly until end-June 1992), there was a serious setback in March 1993 with the rejection by the Assembly of the specific bill required for the privatization of INTEL. Moreover, the fiscal position was weakened by the elimination by the Assembly in August 1992 of the transfer to the Social Security Agency (CSS) of a third of the 13-month salary bonus (which had been approved by the Assembly only 9 months earlier in December 1991) and by the elimination of some petroleum taxes which did not have a proper legal basis. Similarly, the efforts to reduce the public sector wage bill have been undermined by a much smaller-than-anticipated coverage of the voluntary retirement program (only 2,160 applications had been approved through October 1993) and by delays in its implementation (it was not approved by the Assembly until end-1992); by the above-mentioned delays in privatizations; and by the need to pay automatic wage increases stemming from special labor laws--which had been suspended since early 1988, but were reactivated by a Supreme Court ruling in late 1991. No provision had been made for the financial impact of these developments in the program.

5. Despite these setbacks, the macroeconomic performance in 1992 was better than envisaged under the program. Real GDP increased by 8 percent (5 percent in the program), inflation was held below 2 percent, the rate of unemployment declined from over 20 percent in 1990 to under 14 percent by August 1992, and the public sector achieved an overall surplus of 1.6 percent of GDP compared with a deficit of 2.5 percent of GDP projected in the program. Also, and notwithstanding lower-than-programmed foreign financing of $170 million resulting from the delays in the implementation of the structural reform program, Panama complied with all quantitative performance criteria under the program in 1992.

6. The better-than-programmed fiscal performance in 1992 reflected a combination of (i) strong revenue growth as a result of the recovery in economic activity together with improvements in tax administration and tax reform measures implemented in early 1992, which under the program had been expected to be revenue neutral (general government revenues were higher than programmed by the equivalent of about 0.5 percentage points of GDP); (ii) efforts to hold noninterest current expenditure below the programmed levels (0.7 percentage points of GDP); (iii) lower investment outlays (0.4 percentage points of GDP); and (iv) lower interest obligations on external debt (2.3 percentage points of GDP), as a result of the fall in international interest rates.

7. The fiscal position in 1993 also was affected by the factors discussed in paragraph 4, and as a result the public sector deficit is now projected to amount to about 2.3 percent of GDP, compared with 1.6 percent of GDP in the program, despite lower-than-programmed external interest

obligations by about 2.9 percentage points of GDP. The higher-than-programmed deficit results mainly from larger wage and wage-related expenditures and lower general government revenues. The wage bill will exceed the original target by about 20 percent (1.4 percentage points of GDP). In addition, the one-time payment 1/ of back wages and benefits accrued in the period 1988-92 under the special laws mentioned above amounts to about 1.3 percentage points of GDP and there was also a special scholarship program introduced to retrain workers which adds 0.4 percentage points of GDP to current public expenditure. Moreover, and reflecting the elimination of some of the petroleum taxes discussed above, general government revenues although higher than in the original program by B 50 million would be lower relative to GDP by about 0.5 percentage points.

8. The fiscal deficit was projected to weaken further in 1994 to about 2.7 percent of GDP in the absence of corrective measures. To restore the thrust of the program, and without recourse to measures that would require changes in legislation difficult to achieve in the current pre-electoral period, the Government is targeting a reduction in the overall public sector deficit to 1.7 percent of GDP in 1994 (excluding divestment proceeds projected at 0.7 percent of GDP), while at the same time increasing investment expenditures from about 4 percent of GDP in 1993 to almost 5 percent in 1994. This target reflects measures aimed at containing the 1994 wage bill at the 1993 level (see below), and at maintaining other noninterest current expenditure in the general government for 1994 also at the level of 1993 relative to GDP.

9. In order to contain the wage bill, the Government (i) has extended the voluntary retirement program for one year (through end-1994) and widened its coverage to include all administrative staff; (ii) has included no provision for new positions in the 1994 budget, except for a small number in the health and education sectors; (iii) will require the separation of those employees whose positions are made redundant by the restructuring of the state enterprises; (iv) will limit new hiring for the filling of vacancies and contracts only to essential services that cannot be provided with existing staff; (v) will not grant wage increases beyond those required under the special laws; and (vi) will tighten the performance evaluation procedures for the latter, which was already done for INTEL.

10. The Government realizes that containing the wage bill in 1994 is only an interim step and will pursue more fundamental measures to reduce wage pressures over the medium term. To this end, a draft bill for introducing a career stream in the public sector was submitted to the Assembly in September 1993, which provides the framework for a description of public service positions and establishes the obligation of formulating a General Law of Wages for the positions contemplated in the career stream. Work on a specific proposal for a new wage scale and modification of some of the

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1/ These payments are being made with negotiable 10-year government bonds which carry a 4 percent interest rate and are redeemable in 20 equal installments.

public sector special laws is expected to commence early 1994 and be ready for submission to the Assembly at the time the new Administration takes office in September 1994.

11. The Social Security Agency has performed better than envisaged in the program notwithstanding the loss of revenue resulting from the elimination of the transfer relating to the 13th-month salary bonus. The stronger-than-programmed performance has resulted from larger quota contributions, reflecting faster growth in employment and incomes, and cost savings from reform measures implemented in late 1991. Consequently, and pending the completion of actuarial and financial studies being conducted at present, the Government is not contemplating additional measures in the short run to strengthen the CSS. With respect to the Complementary Fund, for which the CSS acts as agent, the Government will initiate a study by end-1993 with assistance from the USAID to design an action plan to eliminate the deficit (projected at 0.5 percent of GDP for 1994) of this Fund over time.

12. The operating noninterest balance of the public enterprises is projected to remain unchanged in 1994, while that of the public agencies is expected to improve by about 0.4 percent of GDP because the special scholarship program implemented in 1993 will not be repeated. The current revenues of INTEL are expected to increase in 1994 as a result of the ongoing investment program to expand the number of lines, notwithstanding a reduction in the rates for international calls which is required to improve the company's competitiveness vis-á-vis international companies. However, little improvement is envisaged during 1994 in the financial position of the water and sewage company (IDAAN) where there have been delays in the implementation of its reform program.

13. The Government has reached agreement with the World Bank and IDB on conditions that would enable the extension of the World Bank's Economic Recovery Loan (which expires December 1993) and that would put the IDB's Public Enterprise Reform Loan on track for second tranche disbursements during the first semester of 1994. These include actions regarding the voluntary retirement program and the elimination of the deficit of the Complementary Fund (see paragraphs 9 and 11), further strengthening of the financial position of the electricity company (IRHE) and IDAAN, rationalization of the electricity tariffs and port and telephone rates, privatization, and trade and price liberalization. The Assembly is expected to approve the revised charter law for IDAAN before the end of the year, and also is discussing the draft bill to reform the charter law for IRHE and that for a law to eliminate theft and fraud of public services.

14. On privatization, in 1991 the Government transferred the Atlantic Banana Company and the Pacific Banana Company to the private sector and initiated the liquidation of Air Panama which is now in its final stages. In 1993, steps have been taken to grant concessions to the private sector to operate two wharfs at the port of Cristobal, Citricos de Chiriqui has been brought to the point of sale, the services of a firm have been contracted to assist in the privatization of Cemento Bayano, the sale of buildings in the Colon Free Trade Zone has been approved, and an action plan is being

prepared to study the possibility of privatizing the sugar refinery, Corporacion Azucarera La Victoria. During 1994, the Government will bring to the point of sale Cemento Bayano, the assets of the Corporacion Integral del Bayano, and the buildings in the Colon Free Trade Zone. Moreover, a bill will be submitted to the Assembly before end-1993 to change the charter law of the Agricultural Insurance Institute (ISA) to allow participation by the private sector in these activities.

15. In November 1993 the Government agreed with the IDB on an alternative strategy for INTEL in lieu of privatization. This strategy includes: (a) restructure of rates, including reduction for tariffs for international calls; (b) seeking bids from the private sector for the provision of cellular phone services; (c) incorporation of INTEL, S.A., subject to approval by the Assembly; and (d) contracting consultants to develop an alternative plan to foster the operational efficiency of INTEL. Also, the Government is taking action to promote private sector participation in the expansion of services of IRHE, IDAAN, and the Port Authority.

16. On trade liberalization, in August 1991 the Government reduced import tariffs to a maximum of 60 percent for industrial goods and 90 percent for agroindustrial and agricultural goods, and export restrictions in the industrial and agroindustrial sectors were eliminated. Moreover, the specific tariffs for an agreed group of products were converted to an ad valorem basis on July 1, 1993. In September 1993, quantitative restrictions on the main agricultural products were replaced by tariffs and tariff rates on imports of agricultural inputs and final goods were unified. By June 1994, the import tariffs for the main agricultural products will be substantially reduced from the present range of 30-100 percent, and by December 1994 import tariffs will be reduced to a maximum of 40 percent for industrial goods and 50 percent for agroindustrial goods.

17. The Government has made substantial progress in liberalizing prices by eliminating controls on those agricultural goods for which quantitative restrictions were replaced by tariffs. Also, in December 1993 the prices of a list of industrial products will be liberalized and the use of data collection requirements as a mechanism for price control will be phased phased out.

18. To improve the economy's competitiveness, the Government granted firms in the export processing zones greater flexibility in deciding on temporary layoffs and is studying changes in other restrictive provisions under the labor code relating to employment termination. It also has enacted legislation regulating labor courts in order to reduce uncertainties facing employers and expedite resolution of labor disputes. Following approval by the Assembly, collective bargaining was resumed in January 1993, including provision for the renegotiation of agreements that previously had been renewed automatically.

19. There has been significant progress in the outlook of the public financial institutions. The operating profits of the National Bank of Panama (BNP) increased substantially in 1992 as a result of the resumption

of debt-service payments by the Government on its liabilities to the BNP, the reduction of its nonperforming assets by improving the quality of its claims on the private sector through the realization of collateral and loan reschedulings, and efforts to reduce operating costs. Nonperforming loans declined from 35 percent of the total private sector loan portfolio at end-1990 to 10 percent at end-1992. The Government is in the process of documenting its overdraft at the BNP, which it expects to complete by end-1993, in order to formalize debt-service payments.

20. As a result of tighter collection procedures and improvements in loan recovery, the operating losses of the Savings Bank (CA) were reduced significantly in 1992 and almost eliminated in the first half of 1993, with nonperforming loans reduced to 25 percent by end-June 1993. The Government assumed the CA's liabilities to the public enterprises in 1991, and transferred assets to the CA, providing a total capital transfer of B 52 million. In addition, in 1992 the Government transferred to the CA property in the Panama Canal reverted areas valued at B 10 million, which the CA is now preparing for sale. Also, the Government will begin formulating an action plan by mid-1994 to restructure the National Mortgage Bank (BHN) and the Agricultural Bank (BDA), which so far have not been successful in improving their financial positions.

21. The authorities are committed to normalizing relations with official bilateral external creditors (outside the Paris Club) and all private creditors, both foreign and domestic. Negotiations on the petroleum debt are being conducted with Mexico and Venezuela and the Government intends to reach agreement with these creditors by July 1994. Negotiations with external bond holders are at a fairly advanced stage and the Government expects to complete an agreement by March 1994. Also, meetings have taken place in recent months with commercial bank creditors with a view to beginning negotiations in January 1994 on a debt-reduction package that would be consistent with the attainment of equilibrium in the public sector accounts over the medium term. In addition to the funds set aside by Panama in an escrow account in 1992 and 1993 that would be used to finance a rescheduling package with the external bond holders, the Government has allocated funds in the 1994 budget to permit resumption of partial interest payments to commercial banks.

22. Since early 1990 the Government has met obligations to domestic suppliers as they fell due, and as of December 1992 it had eliminated all outstanding domestic arrears. Verified claims amounted to some B 120 million (compared with an original estimate of B 200 million). Payment was made in cash or through the issuance of tradable government or government-guaranteed certificates which could be used to make payments of tax arrears or settle other liabilities outstanding to the Government or public institutions (excluding the CSS) as of end-1989.

23. The Government of Panama requests the support of the International Monetary Fund for its economic policies by extending to September 23, 1994 the current stand-by arrangement which expires December 23, 1993. The Government also requests a rephasing of the purchases under the SBA, which

will be for a total amount of SDR 74.17 million, including an access of SDR 39.2 million to be made available in four equal amounts. To monitor performance under the stand-by arrangement the following quantitative performance criteria for end-December 1993, end-March 1994, and end-June 1994 have been set: (i) quarterly ceilings on the net borrowing requirements of the nonfinancial public sector (Table 1), (ii) quarterly ceilings on the changes in BNP's net credit to the public sector and BNP's net domestic assets (Tables 2 and 3), and (iii) semiannual ceilings on net foreign disbursements to the public sector (excluding disbursements from the multilateral institutions) (Table 4).

24. During the period of the arrangement, the Government will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the Fund's policies on such consultations in Fund arrangements. The Government will review with the Fund progress made under the program no later than June 19, 1994. In addition, reviews regarding the external financing associated with the program will be conducted with the Fund no later than March 19 and September 19, 1994.

Sincerely yours,

/ s /
Delia Cardenas
Minister of Planning
and Economic Policy

/ s /
Luis H. Moreno
General Manager
National Bank of Panama

/ s /
Jose Chen Barria
Comptroller General

Table 1. Panama: Net Borrowing Requirements of the Nonfinancial Public Sector (NFPS) 1/

(In millions of balboas)

Period	Ceiling
1993	
January 1 - December 31	-110
1994	
January 1 - March 31	20
January 1 - June 30	--

1/ For the purpose of this table the net borrowing requirements of the NFPS is defined as the sum of: (i) changes in the net credit (credit minus deposits) of the BNP to the NFPS; (ii) changes in the outstanding stock of bonds issued by the Central Government and held by the private sector; (iii) changes in the net foreign borrowing of the NFPS; (iv) changes in central government floating debt (floating checks plus "compromisos" minus cash payments minus "vigencia expirada"); (v) changes in domestic debt; (vi) U.S. budgetary support, including repayment by commercial banks of loans under the U.S. AID program to support bank liquidity (FREN); (vii) other external budgetary support; and (viii) proceeds from the sale of assets under the privatization program.

Table 2. Panama: Changes in the National Bank's Net Credit to the Nonfinancial Public Sector 1/

(In millions of balboas)

Date	Ceiling 2/
1993	
January 1 - December 31	-180
1994	
January 1 - March 31	25
January 1 - June 30	-55

1/ For the purpose of this table the National Bank's net credit to the NFPS excludes the net credit from the Fund to Panama as recorded in account No. 120 of the National Bank.

2/ The ceiling will be adjusted for any divergence from the program for (i) interest and amortization payments of external debt; (ii) divestment proceeds; and (iii) expenditure by IFARHU under the scholarship program.

Table 3. Panama: Change in Net Domestic Assets of the National Bank 1/

(In millions of balboas)

Date	Ceiling 2/
1993	
January 1 - December 31	-140
1994	
January 1 - March 31	30
January 1 - June 30	-40

1/ Defined as the sum of liabilities to the private sector, liabilities to local commercial banks, and medium- and long-term foreign borrowing (including the No. 1 and 2 accounts of the IMF), minus the net liquid assets, excluding from foreign liabilities the net IMF credit.

2/ The ceilings will be adjusted by any adjustment to the ceilings on net credit to the public sector specified in Table 2.

Table 4. Panama: Ceilings on External Debt

(In millions of U.S. dollars)

	1993 Jan.-Dec	1994 Jan.-June
Net disbursements of debt with maturity of less than one year 1/	--	10
Net disbursement of medium- and long-term debt (cumulative) 2/	40	30

1/ Net disbursements on external loans with an original maturity of less than one year contracted or guaranteed by the Government, the National Bank of Panama, and public enterprises. Excludes debt from normal trade-related credits.

2/ Net disbursements on external loans with an original maturity of more than one year contracted or guaranteed by the Government, the National Bank of Panama, and public enterprises, except borrowing from multilateral institutions. Also excludes debt that may emerge from debt rescheduling.