
COUNTRY REPORT

Panama

1st quarter 1998

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The Economist Intelligence Unit

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March 9th 1998 Summary

1st quarter 1998

Outlook for 1998-99: Politics are increasingly focused on the presidential election in May 1999, with continued uncertainty about a possible constitutional amendment to allow President Balladares to stand for a second term. The administration will meanwhile press on with the next stage of structural economic reform. GDP growth, while now on a higher plain, will slacken slightly this year and next because of the impact of the Asian crisis on Latin American demand and the current drought generated by El Niño. The rate is forecast at 4% in 1998 and 3.7% in 1999. The current account will move into the red in 1998, but improve slightly in 1999.

The political scene: The 1999 election campaign is starting up with presidential primaries scheduled for late March. The opposition Arnulfista leader is being challenged for his party's nomination, and MOLIRENA has been hit by defections. The agreement has still not been signed for the planned multi-lateral anti-drug centre. Another US facility has reverted to Panama. The government has put forward proposals for penal reform.

Economic policy: The IMF has approved a \$162m EFF for 1998-2000. The current budget remained in surplus in 1997. The privatisation of the electricity and water utilities is scheduled to begin this year.

The economy: GDP grew by 4.4% in 1997, driven by investment in infrastructure. Construction recovered to 5% growth last year. Unemployment fell to 13.2%, and inflation ended the year at 1.2%.

Money and finance: The cabinet has approved legislation for banking reform. Domestic credit to the private sector rose by 11% in 1997. Stock exchange transactions rose by 59% last year.

Sector trends: Banana export volumes have fallen for the third year in succession. Shrimp fishing has been suspended for two months. Thermal capacity made up for the fall in hydroelectric generation last year. Cable & Wireless is implementing its investment programme at INTEL. Activity at the Colón Free Zone (CFZ) rebounded strongly in 1997. Drought has forced draught restrictions in the canal. The land dispute with Hutchison has been settled. Tourist numbers rose by only 9% in 1997.

Foreign trade and payments: Non-CFZ exports rose by 14.6% in 1997, while imports picked up after an initial decline. A free trade agreement has been negotiated with Chile. Panama has secured a \$85m credit from CAF.

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Political structure

Official name	Republic of Panama	
Form of state	Presidential democracy with Legislative Assembly and independent judicial system	
The executive	The president is head of state, elected for a period of five years by universal adult suffrage; there are two vice-presidents and a cabinet appointed by the president	
National legislature	Legislative Assembly, 72-member unicameral legislature, directly elected by adult suffrage for a period of five years	
Legal system	The president proposes judges for the Supreme Court; they are approved by the Legislative Assembly to sit for ten-year periods; system of appeal originates in courts of first instance, rising to the Supreme Court at the apex	
National elections	May 8th 1994; next national elections (legislative and presidential) due on May 2nd 1999	
National government	Ernesto Pérez Balladares was sworn in as president in September 1994, after winning the May elections with the backing of a coalition led by the Partido Revolucionario Democrático (PRD); the PRD and its allies have a slim majority in the Legislative Assembly	
Main political organisations	<p>Pro-government—PRD; Partido Solidaridad (PS); Partido Laborista (PL); Partido Liberal Republicano (PLR)</p> <p>Opposition—Coordinadora Democrática Nacional (CDN) alliance, comprising the Partido Arnulfista (PA); Movimiento Liberal Republicano Nacionalista (MOLIRENA); Partido Liberal Auténtico (PLA); Partido Liberal Nacional (PLN); Partido Renovación Civilista (PRC); Partido Demócrata Cristiano (PDC); MORENA</p> <p>Neutral—Movimiento Papá Egoró (MPE)</p>	
	President	Ernesto Pérez Balladares
	First vice-president	Tomás Gabriel Altamirano Duque
	Second vice-president	Felipe Alejandro Virzi
Key ministers	Agricultural	Carlos Sousa Lennox
	Canal issues	Jorge E Ritter
	Education	Pablo Thalassinós
	Finance & Treasury	Miguel Heras Castro
	Foreign affairs	Ricardo Alberto Arias
	Government & justice	Raúl Montenegro
	Health	Aida L Moreno de Rivera
	Housing	Francisco Sánchez Cárdenas
	Labour & social welfare	Mitchel Doens
	Planning & economy	Guillermo Chapman
	Presidency	Olmedo Miranda
	Public works	Luis Blanco
	Trade & industry	Raúl Arango
	Youth & family	Leonor Calderón

Economic structure

Latest available figures

Economic indicators	1993	1994	1995	1996	1997 ^a
GDP at market prices (B m)	7,253	7,734	7,906	8,202	8,563
Real GDP growth (%)	5.6	2.9	1.8	2.4	4.4 ^b
Consumer price inflation (av; %)	0.5	1.3	1.0	1.3	1.5 ^b
Population (m)	2.5	2.6	2.6	2.6	2.6
Exports fob ^c (\$ m)	5,417	6,044	6,104 ^a	5,889 ^a	6,890
Imports fob ^c (\$ m)	5,751	6,285	6,665 ^a	6,231 ^a	7,794
Current account balance (\$ m)	-143	22	-343	-60	-282
Reserves excl gold (\$ m)	597	704	782	867	1,118 ^b
Total external debt (\$ m)	6,958	7,121	7,180	7,261 ^a	7,483
Debt-service ratio (%)	15.7	23.9	20.9	27.9 ^a	28.0
Exchange rate (av; B:\$)	1	1	1	1	1 ^b

March 6th 1998 B1:\$1

Origins of gross domestic product 1996	% of total	Components of gross domestic product 1996	% of total
Agriculture, forestry & fishing	8.1	Private consumption	51.8
Manufacturing & mining	9.9	Government consumption	15.7
Construction	3.9	Fixed investment	25.6
Transport & communications	12.3	Stockbuilding	4.0
Commerce, hotels & restaurants	20.0	Exports of goods & services	95.7
Finance	11.1	Imports of goods & services	-92.7
Real estate	13.7	GDP at market prices	100.0
Government	10.5		
Total inc others	100.0		

Principal exports 1997 ^d	\$m	Principal imports cif 1996 ^d	\$m
Bananas	176.6	Capital goods	679.5
Shrimp	95.5	Food products	266.0
Sugar	26.5	Oil	300.7
Total incl others	621.6	Total incl others	2,778.8

Main destinations of exports 1996 ^d	% of total	Main origins of imports 1996 ^d	% of total
US	47.6	US	37.3
Switzerland	10.2	Colón Free Zone	13.6
Costa Rica	6.6	Venezuela	7.1
Germany	4.4	Japan	6.0
Belgium-Luxembourg	4.2	Ecuador	3.8

^a EIU estimates. ^b Actual. ^c Includes imports to and re-exports from the Colón Free Zone (CFZ). ^d Excludes imports to and re-exports from the CFZ.

Outlook for 1998–99

The presidential campaign is starting up in earnest

With the primary elections due on March 29th and the presidential and legislative elections in May 1999, politics have taken centre stage and will remain there through much of the forecast period. The temperature has been turned up, moreover, by the attempt by the ruling Partido Revolucionario Democrático (PRD) to change the constitution so as to allow the president, Ernesto Pérez Balladares, to stand for re-election. The proposal would have to be put to public referendum, for which the date is not yet clear, and whose outcome is by no means certain. While the president was winning approval ratings as high as 46% in December 1997, polls in January showed 57% of the population against presidential re-election. Mr Balladares has yet to state his intentions, but his most recent remarks indicate his wish to carry on. Meanwhile the leading opposition parties have yet to decide on their standard bearers, but they will need to come together if they hope to defeat the government candidate.

The administration will press on with structural reform

Buoyed up by the re-affirmation of IMF support, in the extended fund facility (EFF) approved in December 1997, the president will press on with the second phase of the reform programme he initiated in 1995. Key items on the agenda include the reform of social security, the penal code and banking, and continuing privatisation (including electricity and water). Over time opposition to the administration's reforms has diminished but the president will face tough criticism on some aspects of the programme. Whatever the outcome of next May's vote, the structural reform which is now paying off—in terms of stronger GDP growth and investment that is laying the basis for its maintenance—is unlikely to be abandoned or amended by the next administration.

Economic growth prospects have dimmed—

While GDP growth last year came in higher than expectations—at 4.4% as against the EIU's projected 3.7%—and thus almost double the 1996 rate, our forecast for 1998 and 1999 is now less bullish. We see 4% growth this year (rather than 4.7%) and a further drift down, to 3.7%, in 1999.

Investment will remain the major source of growth, with high levels of spending on transport infrastructure (notably ports and roads) linked to the Canal and the Colón Free Zone (CFZ) and the re-development of land and facilities that are being handed over by the US authorities under the provisions of the Torrijos-Carter treaties. But there are also downward pressures. The fallout from the Asian crisis in terms of activity at the CFZ is uncertain, in both duration and extent, but it will undoubtedly be negative. Particularly relevant is the knock-on effect on the volume of Latin American trade, which accounts for most of the transactions at the CFZ. Meanwhile although the severity of the climatic upset generated by the El Niño phenomenon is expected to abate in coming months, the drought it has brought to Panama has already hit some crops and forced restrictions on the draught of ships passing through the canal, which will dent revenues this year.

—and the current account will go into deficit

The slight weakening in GDP growth will not dampen demand for imports, which will be driven by the strength of investment and stimulated by tariff cuts meeting World Trade Organisation requirements. Meanwhile, the pace of

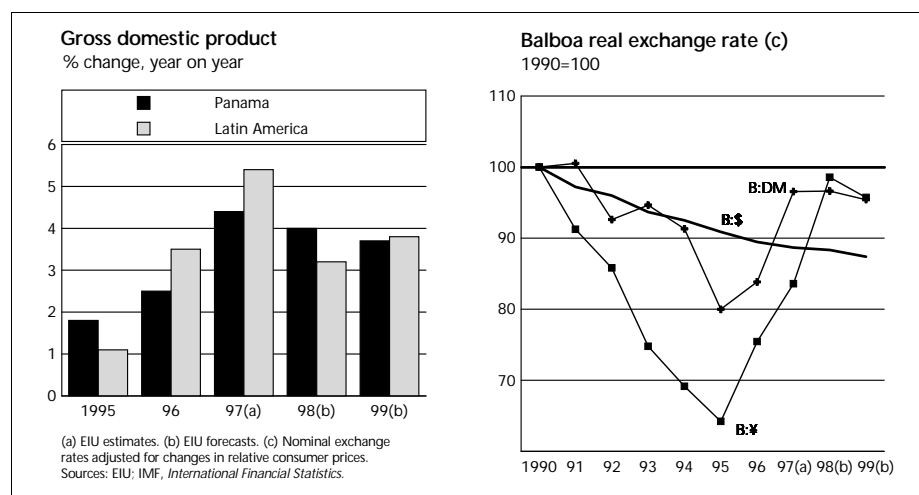
export growth will be slowed by reduced demand for CFZ goods and generally weaker prices for traditional domestic exports, the volume of some of which will fall this year because of drought. The trade gap is therefore projected to widen yet again, to just over \$1bn in both years. While the surplus on invisibles should be held up by further improvement in tourist receipts and growth in the financial sector, the current account is expected to return to deficit this year, of \$242m. The pick-up in revenues at the canal should allow a slight reduction in the deficit next year, despite a higher trade imbalance.

Forecast summary

(\$m unless otherwise indicated)

	1996 ^a	1997 ^a	1998 ^b	1999 ^b
Real GDP growth (%)	2.4	4.4	4.0	3.7
Consumer price inflation (year-end; %)	2.3	1.2	1.5	1.5
Merchandise exports fob ^c	5,889 ^d	6,890 ^d	7,412	7,930
Merchandise imports fob ^c	6,518 ^d	7,794 ^d	8,550	9,115
Current-account balance	-60	-282 ^d	-370	-361
Exchange rate (year-end; B:\$)	1.00	1.00	1.00	1.00

^a Actual. ^b EIU forecasts. ^c Includes imports and re-exports from Colón Free Zone (CFZ). ^d EIU estimate.



Review

The political scene

The election campaign is starting up—

Although no date has been set for a public referendum on the amendment to the constitution to allow President Balladares to stand for re-election in May next year, the campaign for the presidential and legislative elections is due to begin with the presidential primaries on March 29th. Panama has 11 political parties—a large number for a country with a population of only 2.6m. Many political analysts predict that without the creation of strong alliances to challenge it, the ruling Partido Revolucionario Democrático (PRD) will win again.

Opposition parties are still considering some tie-up for the elections, but no announcements have been made to date.

—with turmoil within the major opposition parties

With the political temperature rising, disagreements and rivalries within the other leading parties—the Partido Arnulfista, Movimiento Liberal Republicano Nacionalista (MOLIRENA) and Movimiento Papá Egoró (MPE)—have found open expression. The Arnulfista Alberto Vallarino has announced his intention to oppose the party's controversial president, Mireya Moscoso, in the primaries. Another strong political leader, Guillermo Ford, suffered defections from his MOLIRENA party in January when the party's secretary, Ricardo Alemán, accepted Mr Balladares's invitation to become the president of the CFZ and, not long after, two other party officers resigned or were expelled, citing irreconcilable differences with Mr Ford over their willingness to consider re-election. The MPE meanwhile expelled its representative to the Legislative Assembly, Gloria Young, for lack of discipline. Ms Young was an outspoken opponent of re-election while the MPE, historically a neutral party, has not taken an official position.

All eyes are on the mayor

At present Mr Balladares, were he to stand again, would face the most severe challenge from a politician without any party affiliation, Panama City's mayor, Mayín Correa. She has by far the highest approval rating—93.9%—of any politician in the country. Indeed her popularity has made her a target of the PRD political machine which is hoping that her reputation will be tarnished by a three-year-old battle with the city's treasurer, a member of the PRD, over the city's budget. The opposition, on the other hand, would look to her as an ally, strengthening the chances of their own presidential candidate(s) by running as the vice-presidential partner. There is some doubt whether she would succeed in an independent presidential bid.

Agreement on the multilateral anti-drug centre is elusive—

After numerous reports that an agreement on the establishment of the multilateral anti-drug centre at the Howards Air Force Base was imminent, it had still not been concluded by the end of 1997, as had been hoped. On January 13th Mr Balladares announced that the first phase of the negotiations with the US had been concluded. The two sides agreed on the principle of a 12-year renewable contract, which would leave 2,000 US soldiers at Howards and yield an expected \$200m a year to Panama (which compares with the estimated \$350m which the US spent before reversion). However, while the US was apparently prepared to sign a bilateral agreement on these terms, Panama argued that for the centre to be truly multilateral, other parties must sign up. Despite US objections, Mexico, Colombia and Brazil were approached.

If and when a multilateral accord is reached, the proposal will still be subject to public referendum in Panama. This should not be a problem. Public opinion polls show that 66% support a US presence in Panama after 2000 (when reversion is due to be completed) and 63% do not consider the anti-drug centre to have any negative implications for sovereignty.

—but Panama retains its certification

According to its annual survey, the US administration still considers Panama an important centre for the drug trade because of its attractiveness as a money-laundering destination. However, thanks to the government's anti-drug efforts,

and the progress in negotiations for the multilateral anti-drug centre and the banking reform that has now been introduced (see Money and finance), Panama once again received US certification as a partner in the war against drugs.

Another installation reverts to Panama

In another step in the phased withdrawal of US troops, in accordance with the Torrijos-Carter treaties of 1977, Quarry Heights, formerly the home of the US military's Southern Command, reverted to the Panamanian government on January 9th. In all, the reverted areas are expected to attract some \$390m in investments by 2001 according to the Autoridad de la Región Interoceánica (ARI), the government agency responsible for the development and redevelopment of the land and installations returned to Panama.

Reform of the penal system is proposed

The latest issue of the US State Department's annual report on human rights in Panama has, for the second consecutive year, highlighted persistent problems in the country's judicial and penal system. The report criticised police violence, the slowness of judicial process, the timid application of alternatives to imprisonment, and cruel or unusual punishment. While the mounting international pressure on this issue publicly angers officials, it may be having the desired effect. In late January the draft of a bill for substantial reform was published. This would include maximum prison terms, the creation of a grand jury system and new laws to establish penalties for drunk driving, illicit enrichment and environmental wrongs. There are proposals to set up a supervisory commission to oversee human rights issues and prison conditions. Spanish consultants have been called in to provide technical assistance and training for modernisation of the prison system and improvement in the care of inmates, including re-socialisation. The draft reform bill was published close to the occurrence of the most macabre event yet in the Panamanian prison system—the decapitation of four inmates on the prison island of Coiba by rival prison gang members. It has been reported that as many as 451 of the 697 prisoners on the island have not been tried or are awaiting sentencing. As of June 1997 nearly 75% of the 7,822 prisoners in the system had not yet been tried, up from 71% the year before.

Economic policy

The IMF agrees another extended fund facility

On December 9th 1997 the International Monetary Fund formally approved a SDR120m (\$162m) extended fund facility (EFF) to support the government's medium-term economic reform programme over the three years 1998-2000. Panama's previous agreement with the IMF matured in March last year. The objectives of the programme were defined in the press release accompanying the award as to "deepen and broaden structural reforms within the context of continued prudent fiscal policy and low inflation, with the objective of promoting sustainable output and employment growth and reducing poverty"—the familiar formulation.

The main macroeconomic targets are set out in the table below. In the event the GDP and inflation figures in 1997 were rather better than these projections (see The economy). A significant feature is the acceptance of fiscal deficits through 1997-99. This reflects the initial costs involved in privatisation and

pension reform. The hope is that continuing restraint in current spending and the implementation of comprehensive tax reform in late 1999, as well as civil service reform, will allow the budget to return to a modest surplus in 2000. Throughout the period the current-account deficit, expressed as a ratio of GDP, is expected to be running well above the levels of the recent past, because of the import demand generated by rising investment.

Actual and target economic indicators

	1996 ^a	1997 ^b	1998 ^b	1999 ^b	2000 ^b
Real GDP growth (%)	2.6	3.4	4.1	4.5	4.8
Consumer price inflation (%; year-end)	2.3	1.4	1.7	1.6	1.6
Fiscal balance (% of GDP)	0.4	0.7	0.7	0.5	0.6
Current-account balance (% of GDP)	-1.6	-2.9	-3.5	-3.6	-2.4

^a Actual. ^b Projection.

Source: IMF Survey.

In a confirmation of the support of the Bretton Woods institutions, the World Bank is to extend a \$60m structural adjustment loan, the third such to Panama.

The current budget remained in surplus in 1997

The government has reported a smaller surplus on the current balance of the 1997 fiscal accounts, of \$142m, compared with \$190m in 1996. While tax revenue increased owing to a higher rate of filing of tax returns and modernisation of the process, the rise in expenditure on government personnel and interest more than offset the improvement.

Current budget performance
(B m)

	1996	1997	% change
Current revenue	1,516.7	1,575.2	3.9
of which:			
taxes	983.8	1,083.7	10.2
direct	447.4	510.3	14.1
indirect	536.4	573.4	6.9
non-tax receipts	508.1	445.2	-12.4
Current expenditure	1,324.2	1,433.6	8.3
Personnel	568.5	592.3	4.2
Non-personnel & others	121.4	161.3	32.9
Transfers	305.7	320.9	5.0
Interest	328.6	359.1	9.3
Balance	192.5	141.6	-26.4

Source: Ministerio de Planificación y Política Económica (MIPPE).

The pace of privatisation is maintained—

The privatisation of National Casinos, involving six full casinos (split into Group A and Group B with three casinos each) and 14 slot machine operations, was concluded at the end of January. Thunderbird Corporation (Canada) and Martínez Sequi (Chile) won the two 20-year casino operator concessions for \$3.55m and \$3m respectively; each paid a premium of close to \$1m over the minimum bid price set by the government. Gaming and Services of Panama (Spain) won the 20-year concession to operate the 14 slot-machine locations, paying \$20m or \$13m more than the government's floor price.

Disposals scheduled for the first half of this year include the Atlapa Convention Centre (in March) and the La Victoria Sugar Refinery (May), while July is the date set for the beginning of the privatisation of the electricity utility, Instituto Hidráulicos y Electrificación (IHRE) and December for the water utility, Instituto de Agua y Alcantarillado Nacional (IDAAN). Draft legislation has been approved at cabinet level to privatise IDAAN's operations in Colón and Panamá cities. Similar to the IHRE model, the long-term plan is to break the company into eight pieces. Though all the details have yet to be settled, one of the requirements will be the construction of sewage treatment systems for the cities of Panamá, Colón, Arraijan, Chorrera and Capira. Meanwhile, in what amounts to a first step in the privatisation of water services, the government has awarded a 30-year concession to build a potable water facility at Laguna Alta for the cities of Arraijan, Chorrera and Capira to the British company, Biwater Supply. Scheduled to start operating in early 1999, Laguna Alta is expected to produce at least 6.5m gallons of potable water daily.

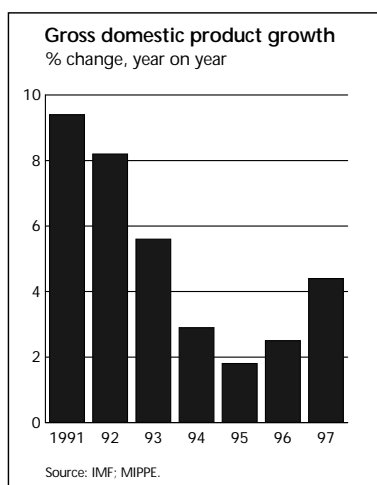
—with new items coming forward

In addition, discussions are under way to privatise the Agricultural Development Bank, the National Mortgage Bank and the National Savings Institute. A proposal has been made to sell off refuse collection and the government is looking to sell Puerto Vacamonte, a small port near Hutchison's Balboa terminal, which is currently losing \$500,000-\$1m a year.

The economy

GDP growth accelerated in 1997

The economy expanded by 4.4% in 1997—close to double the 2.3% average since 1985 and the highest rate since the growth surge of the early 1990s. The expansion was primarily due to the recovery in exports (non-CFZ sales were up 14.6% in dollar terms) and the strength of investment.



Gross domestic product by sector
(% change on year earlier)

	1996	1997
Agriculture & fishing	0.5	10.2
Manufacturing	0.7	3.6
Electricity & water	19.7	3.4
Construction	-4.1	5.0
Commerce	-1.2	8.8
Hotel & restaurants	6.0	5.4
Transport, storage, & communication	2.7	4.5
Financial intermediation	10.0	3.3
Real estate	3.1	2.5
Private education	3.9	5.5
Health & social services	-0.7	0.9
Public services	1.8	3.8
Domestic services	-5.7	4.4
GDP incl others	2.4	4.4

Source: Ministerio de Planificación y Política Económica (MIPPE).

The sectoral breakdown below shows particularly good performance by agriculture and a marked upturn in manufacturing growth; other data reveal a 15.7% rise in the value of total trade at the CFZ (after the contraction registered in 1996) and a 7.4% increase in tourist spending.

Construction recovers After the stagnation and decline of recent years—value added in construction rose by only 1.5% in 1995 and fell by 4.1% in 1996—the sector registered an upturn of 5% last year. As the table below indicates, the growth has largely been in the public sector, reflecting the high level of spending on highway projects. Infrastructure was also the only sector of private construction showing strong growth; the value of residential construction contracted, with a particularly marked fall in the now saturated luxury end of the market.

Value of construction activity
(B m)

	1995	1996	1997
Private sector	369.6	350.8	379.4
Residential (under \$200,000)	96.4	82.2	76.7
Residential (over \$200,000)	102.3	118.6	96.6
Non-residential	140.8	111.0	118.7
Infrastructure	29.6	39.0	87.4
Public sector	120.7	140.3	207.5
Total	490.3	491.1	586.9

Source: MIPPE.

Unemployment fell last year— The strengthening in economic growth last year made possible a reduction in the unemployment rate from 14.3% to 13.2%, as a net 45,000 jobs were created. The rate of unemployment remains among the highest in Latin America and it has been a persistent problem in the past decade, with the surge in growth in the early 1990s only slowly bringing down the figure from its crisis level of 16.3% in 1988-89. On the other hand, there is a very large informal sector, which means that many jobs go unrecorded.

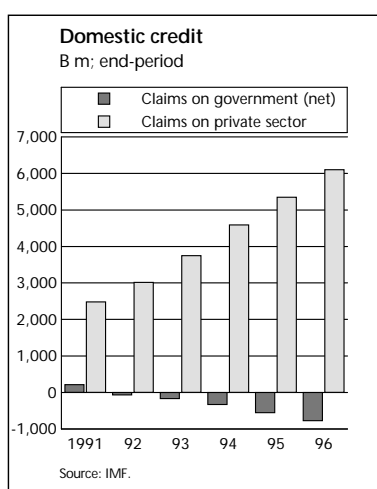
—as did inflation Panama is distinct in the region for having a tradition of low inflation owing to its use of the dollar as currency. Over the period 1992-96 the average was just 1.2%. At end-1997 the annual rate was only 1.2%, compared with 2.3% at end-1996. (The average for the full year is slightly above 1996, at 1.5% against 1.3%.) In 1997 an additional factor checking price pressures was the abolition from the beginning of the year of all quotas and quantitative restrictions on imports, in line with Panama's entry into the World Trade Organisation (WTO), as well as the continuing reduction in import tariffs.

Money and finance

The president decrees banking reform Under the special powers he has during the legislature's recess, the president has enacted the long-awaited banking reform law. This will have to be ratified by the Legislative Assembly in the session opening in March, but given the administration's comfortable majority there, its approval is a near certainty. The overt aim is to enhance Panama's appeal as an international financial service centre, by introducing transparency and proper surveillance. The text of the law has yet

to be released, but it is known to propose the setting up of a Banking Superintendency, which will supervise all banking activities and have access to all accounts and documentation. This would replace a system which gives complete bank secrecy. Although newspaper reports did not address the issue, it appears that the superintendent would have the right to decide whether or not the information is to be shared with a foreign government. This is of great relevance to the investigation of the laundering of drugs money, and for this reason banking reform has figured large in Panama's relations with the US. The law also addresses the issue of bank quality, by applying Basle Accord standards on contingent liabilities and capital requirements, as well as establishing concentration limits. It is hoped that the law will create a regulatory environment for new services such as leasing companies and investment banking.

Lending to the private sector rises by 11%



A consistent pattern in the present decade (to which 1996 was an exception) has been for credit to the public sector to decline while lending to the private sector has risen in double digits. This pattern was repeated in 1997, when domestic loans to the public sector contracted by 1.2% and those to the private sector rose by 11.4%. Rates of increase varied widely between different categories of borrower, reflecting the increased competition from foreign banks which have entered the personal loans market.

Domestic lending by sector (B m)

	1996	1997	% change
Public sector	1,096	1,083	-1.2
Private sector	6,474	7,212	11.4
Finance & insurance	300	362	20.7
Agriculture, fishing, livestock & mining	341	320	-6.2
Commerce	2,568	2,896	12.8
Manufacturing	371	415	11.9
Housing & construction	1,946	2,122	9.0
Consumer	948	1,097	15.7
Total	7,570	8,295	9.6

Source: MIPPE.

The stock exchange's clearing agency starts up—

For four years now a regional stock exchange has been evolving. In 1996 the Central Panamericano de Valores was set up, as a centralised depository for six countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Central clearing agencies are now being established in each country. Panama's agency, Latinclear, began operating on January 6th this year. Replacing a manual with an electronic system, Latinclear attempts to reduce settlement risks and enhance the efficiency and speed of the settlement process.

—after another year of strong growth

Trading volumes on the Panama Stock Exchange registered an increase of 59% last year, slightly down on the 1996 rate but still very robust. The Bolsa has been expanding strongly nearly every year since its creation (in 1990), buoyed up by privatisation issues (the exception to the trend was in 1995, when there were no such issues). Corporate bonds continued to account for almost half of total trading volumes (45%), while government paper represented 22% and

stocks 8%. Primary market issuance was up 56% and secondary market trading advanced 80%.

Volume traded on the stock exchange

	B m	% change on year earlier
1992	102.8	225.9
1993	201.4	95.9
1994	290.2	44.1
1995	233.4	-19.6
1996	446.5	91.3
1997	711.0	59.2

Source: Bolsa de Valores de Panamá.

Agriculture and fishing

Banana export volumes
fall once more

Banana exports declined for the third consecutive year in 1997, falling to 33m boxes from 35.8m in 1996. The decline reflects continuing inroads in export markets by other producers, as well as frequent labour disputes. However, profitability is improving. Unit export values have been rising modestly in the past two years, by 6.2% in 1996 and 4.3% in 1997, while producers are benefitting from the gradual reduction in the export tax which began in 1996.

Banana exports

	1993	1994	1995	1996	1997
Volume: m boxes	38.4	41.0	38.3	35.8	33.0
Value: \$ m	199.5	199.2	185.1	184.0	176.6

Source: MIPPE.

With the prospect of a more open market in the EU, the sector continues to attract investment. In January a new 20-year contract was signed with the Chiriquí Land Company (CLC), a subsidiary of the US company United Brands, to lease 27,262 ha of land in Bocas del Toro and Chiriquí Grande.

Shrimping activities are
briefly suspended

In contrast to bananas, the country's second-ranking domestic export, shellfish, has registered strong growth in the past three years. In 1997 sales of shrimps (the major product) rose by 28% to \$95m. In an effort to conserve the sector's resources, the government imposed a ban on shrimp fishing between February 1st and April 11th.

Infrastructure

Thermal power
generation rises steeply

While total electricity production rose by 5.9% last year, thermal output increased by close to 40% as new plant came on stream, while hydroelectric generation fell as water resources were hit by El Niño, late in the year. This is a reversal of the recent trend.

Electricity production (m kwh)

	1996	1997	% change
Total	3,824	4,050	5.9
Thermal/diesel	821	1,148	39.8
Hydro	3,003	2,902	-3.4

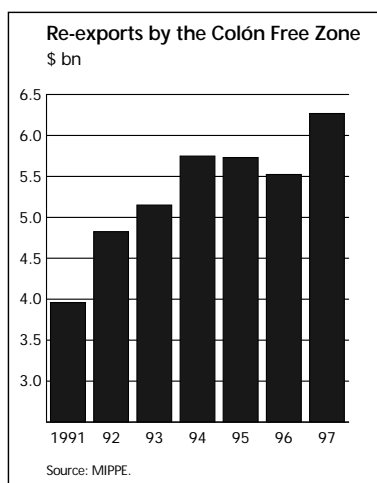
Source: MIPPE.

Cable & Wireless invests in the telephone system

Cable & Wireless of the UK, which bought 49% of the government telecommunications company, INTEL, in May last year, plans to invest \$160m in 1998 to improve and expand the system. Additional lines and more public telephones will be installed and digitalisation will continue. Last year the company invested \$170m. Cable & Wireless has also paid the government \$72.6m for the Band A cellular licence. BellSouth has the licence for Band B.

Services

Rebound at the CFZ may be short lived



A complex of factors—the elimination of the income tax on CFZ operators at the beginning of the year, the new container port which went into operation in the final quarter and improved security, as well as the recovery in demand in major trading partners—brought a 15.7% rise in the value of trade through the CFZ in 1997, to \$11.8bn. The growth continued through January 1998, when according to a local press report, trade totalled \$949m. But the year-on-year rise in the month was only 9.1%—a slackening which is being attributed to the Asian crisis, with the deep currency devaluations lessening that area's demand and the fallout reducing growth in Latin America, the major market for CFZ re-exports.

Trade at the Colón Free Zone (\$ m)

	1995	1996	1997
Imports	5,174	4,661	5,514
Re-exports	5,731	5,524	6,268
Total	10,905	10,185	11,782

Source: MIPPE.

Draught restrictions at the Panama Canal

As El Niño has brought the driest season in the canal's 83 years of operation, with rainfall 35% below the annual average, the Panama Canal Commission has been forced to impose draught restrictions from mid-March. They are expected to last until July, after which it is hoped they can be lifted gradually. During normal conditions, the average level of water in a lock during the transit of a vessel (the vessel's draught) is 39.5 feet. Because the dry weather has reduced the water which feeds the canal, and in order to conserve supply until the rains begin again, the draught is to be reduced to 39 ft on March 12th, with further six-inch cuts scheduled for the following weeks, to bring the limit to 37.5 feet at the beginning of April. Large vessels will thus have to transit the canal with lighter loads. The Panama Canal Commission estimates that 17% of the approximately 13,500 vessels that transit the canal annually will be affected.

Already a number of shipping lines have begun to divert their vessels to other routes. The lower tonnage, combined with slacker growth in shipments to and from Asia as a result of the region's economic crisis, will hit Canal revenues in 1998. Meanwhile the 8.5% increase in tariffs from the beginning of the year has already been allocated to fund the modernisation programme now under way.

The land dispute with Hutchison is settled

A land dispute between the government and the port operator, Hutchison Whampoa, has been settled. Last September it had emerged that 43 ha of the land assigned to Hutchison to expand its docks had been pledged for several other projects as well (4th quarter 1997, page 18). The government has agreed to pay Hutchison restitution of \$40m, to be paid by annual instalments of \$10m deducted from the annual fee (\$22.2m) and share of revenues that Hutchison is contracted to pay the government. Hutchison had sought \$60m over six years. The compensation will allow Hutchison to move forward with its expansion plans, by building an 18-ha landfill. With the settlement agreed, Panama was able to finalise the contract with Kansas City Southern Railroad (KCSR) for the rehabilitation of the trans-isthmian railway (one third of the land under dispute had been allocated for this purpose) and move forward to relocate the airport from Paitilla to Albrook, which in turn allows the construction of the southern corridor toll-road to continue and the Atlapa Convention Centre to be sold.

Tourism

The growth rate braked sharply in 1997—

Some 483,000 tourists visited Panama in 1997, spending \$368.5m. Both figures were up on 1996—by 9.1% and 7.4% respectively—but the growth in arrivals was well below the 25% of the previous year and below the rate needed to attain the government's target of 1m visitors by 2000. IPAT, Panama's official tourism agency, is now projecting a 12% increase in tourist arrivals this year (a rate which would leave numbers 300,000 below target by 2000) and spending of \$400m.

Tourism statistics

	1996	1997	% change
Arrivals	442,719	482,984	9.1
Spending (\$ m)	343.1	368.5	7.4

Source: MIPPE.

—but investment in infrastructure continues strong

Despite last year's rather disappointing results, plans to develop the tourism infrastructure continue apace. In December a project was approved to develop Fort Amador, including a commercial centre, a cruise ship dock and a 5-star 500-room hotel; investment of \$100m is envisaged. The project is expected to start once the ARI (the government agency responsible for the reverted areas) finishes the infrastructure work, bidding for which is expected in March-April. ARI expects total investment in Amador to reach over \$500m in five projects which will create 3,500 permanent jobs.

Meanwhile a number of international hotel chains, such as the Hyatt, Ramada and Marriott, are due to open or install new facilities. The privatisation of the Atlapa Convention Centre will involve 350 new hotel rooms, while 1998 will see new capacity in the country's interior.

Foreign trade and payments

Domestic exports grew strongly in 1997—

Non-CFZ exports performed well in 1997, rising by 14.6% to \$621.6m, and thus more than making up the marginal fall registered in 1996. All leading exports were up, with the exception of bananas, which declined by 4% to \$176.6m as volumes were affected by adverse weather and competition from other sources. Shrimps continued to be the most dynamic among the principal exports, with a rise of 28% on 1996. Preliminary estimates show non-CFZ exports growing again in January 1998, but by a more modest 8.5% year on year.

Non-CFZ exports
(\$ m; fob)

	1996	1997	% change
Bananas	184.0	176.6	-4.0
Shrimp	74.6	95.5	28.0
Sugar	22.6	26.5	17.3
Textiles	20.2	24.2	19.8
Coffee	18.8	22.4	19.1
Gold & silver	10.7	12.8	19.6
Fishmeal & fish oil	2.9	8.4	189.7
Beef	5.1	7.3	43.1
Total incl others	542.3	621.6	14.6

Source: MIPPE.

—while imports were sluggish in the first months

Preliminary figures show that non-CFZ imports in January-May 1997 were virtually unchanged on the year-earlier level. But there were significant divergences between the major categories. Imports of capital goods fell by 37%, suggesting that much of the equipment needed for investments which took place in 1997 were imported in 1996. The fall in import tariffs had an impact on consumer and intermediate goods, which grew by 20%. Official data do not yet go beyond May, but local newspapers report that non-CFZ imports were up by 7% year on year in the first nine months of 1997, boosted by strengthening economic growth. The year-on-year growth in the import bill had in fact already reached 8.4% in April-May, as against the 5.5% fall in the first three months.

Non-CFZ imports, Jan-May
(\$ m; cif)

	1996	1997	% change
Consumer & intermediate goods	631.1	755.6	19.7
Capital goods	295.4	186.7	-36.8
Crude oil	123.4	125.8	1.9
Foodstuffs	106.3	91.2	-14.2
Total	1,156.1	1,158.2	0.2

Source: MIPPE.

- A free-trade deal is agreed with Chile
- Negotiations on the long-awaited free-trade agreement with Chile have apparently concluded. The formal signing is now expected in April at the meeting of American heads of state in Chile. The deal should bring significant benefits to Panama's banana and beef exporters. Currently Panama's domestic exports to Chile are minimal—only some \$7m in 1996—while imports were four times this level, but still equivalent to only 0.4% of Panama's purchases.
- CAF coughs up
- Fast on the heels of gaining membership of the Corporación Andina de Fomento (CAF, the Andean Development Corporation) last November, Panama has obtained an \$85m loan over ten years for road infrastructure development. Such credits are significant to back up the government's investment programme, particularly in the reverted areas.

Quarterly indicators and trade data

Quarterly indicators of economic activity

		1995			1996				1997		
		2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr
Prices	Monthly av										
Consumer prices ^a :	1990=100	106	106	106	107	107	107	108	109	109	109 ^b
change year on year	%	1.0	1.1	0.7	1.3	0.8	0.8	2.1	1.8	1.6	1.6
Wholesale: general	1990=100	108	108	108	109	108	109	112	107	107	107
Money	End-Qtr										
Deposit money,	B m	713.6	725.1	746.1	761.0	745.6	772.9	770.4	804.6	839.9	862.1
seasonally adj:	%	0.0	0.8	1.4	6.0	4.5	6.6	3.3	5.7	12.6	11.5
Foreign trade ^c	Qtrly totals										
Exports fob	\$ m	167.2	155.4	151.2	146.5	161.3	176.2	50.4 ^d	n/a	n/a	n/a
Imports cif	"	627.5	608.4	662.1	679.9	694.2	703.0	702.8	642.4	n/a	n/a
Exchange holdings	End-Qtr										
Foreign exchange ^e	\$ m	725.0	715.6	763.2	884.1	882.9	852.6	849.6	1,286.6	1,076.5	1,043.3 ^f
Exchange rate											
Market rate	B:\$	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Note. Annual figures of most of the series shown above will be found in the Country Profile.

^a Panamá City. ^b Average for October-November, 106. ^c Excluding Canal Zone. ^d October only. ^e Virtually all dollars. ^f End-4 Qtr, 1,131.3.

Source: IMF, *International Financial Statistics*.

Foreign trade

(\$ m)

	Total		US		Ecuador		Venezuela	
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
	1994	1995	1994	1995	1994	1995	1994	1995
Imports cif								
Food	215.7	482.4	128.8	403.3	0.8	0.8	0.4	0.1
of which:								
cereals & preparations	70.3	309.5	52.3	286.4	0.0	0.0	0.1	0.1
Petroleum & products	291.5	2,295.6	67.9	522.0	100.6	1,106.3	31.2	352.8
Chemicals	310.1	250.3	120.7	133.9	0.5	0.2	1.2	1.3
Manufactured goods	458.3	414.9	188.4	150.6	2.6	4.5	13.3	26.1
of which:								
paper & manufactures	109.8	121.4	87.1	103.2	0.3	0.0	0.6	1.4
iron & steel	94.4	148.4	11.8	10.2	1.2	0.9	2.5	3.7
Machinery & transport equipment	739.8	92.8	304.5	42.1	0.2	0.0	1.0	0.3
Total incl others	2,404.1	3,799.0	942.3	1,323.7	105.6	1,113.1	52.7	412.4

	Total		US		Germany		Sweden	
	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
	1994	1995	1994	1995	1994	1995	1994	1995
Exports fob								
Food	390.8	931.4	166.5	276.4	63.9	271.7	48.5	112.9
of which:								
fruit & vegetables	223.8	813.9	60.0	187.8	61.6	270.4	48.5	112.9
Petroleum products	13.0	143.3	4.8	63.1	0.0	0.0	0.0	0.0
Manufactured goods	34.0	34.9	7.3	5.2	0.0	0.0	0.0	0.0
Total incl others	524.3	1,202.5	210.3	358.1	65.1	272.2	48.5	112.9

Source: UN, *External Trade Statistics, series D*.