

February 1999

IMF Staff Country Report No. 99/7

Panama: Recent Economic Developments

This Recent Economic Developments report on Panama was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with this member country. As such, the views expressed in this document are those of the staff team and do not necessarily reflect the views of the Government of Panama or the Executive Board of the IMF.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431

Telephone: (202) 623-7430 • Telefax: (202) 623-7201

Telex (RCA): 248331 IMF UR

E-mail: publications@imf.org

Internet: <http://www.imf.org>

Price: \$15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

PANAMA

Recent Economic Developments

Prepared by a staff team consisting of Gopal Yadav (Head),
Ronald Pearson, Roberto Rosales, Mariana Torres, and Ethan Weisman (all WHD)

Approved by the Western Hemisphere Department

December 3, 1998

	Contents	Page
Basic Data	4
I. Macroeconomic Trends	6
A. Developments During 1990–92	6
B. Developments During 1993–96	7
C. Developments in 1997	8
II. Financial Sector—Update	17
A. Institutional Framework	17
III. Reversion of the Panama Canal and Related Areas—Update	24
A. Overview	24
B. Institutional Setup	24
C. Main Features of the Canal and Assets Being Transferred	25
D. The Canal’s Investment Program	26
E. Development Strategy for the Reverted Areas	27
F. Economic Impact of the U.S. Withdrawal and Other Issues	28
IV. Promotion of Competition	28
A. Introduction	28
B. Trade Reform	28
C. Changes in the Domestic Market	34
D. Remaining Issues on Competitiveness	35

Figures

1.	Real Sector Developments	10
2.	Public Sector Operations	11
3.	Monetary Developments	13
4.	External Developments	15
5.	Exchange Rate Developments	16

Tables

Output and Expenditure

1.	National Accounts by Productive Activity	37
2.	National Accounts by Use	39
3.	Saving and Investment	40
4.	Agricultural Production	41
5.	Value Added in Manufacturing	42
6.	Electricity Generation and Consumption	43
7.	Private Sector Construction Permits, District of Panama	44
8.	Domestic Sales of Petroleum	45

Employment and Prices

9.	Labor Force Statistics	46
10.	Average Prices Received by Farmers	47
11.	Selected Price Indices	48
12.	Consumer Price Index	49
13.	Wholesale Price Index	50
14.	Selected Energy Prices	51

Public Sector Finances

15.	Operations of the Nonfinancial Public Sector	52
16.	Central Government Operations	54
17.	Central Government Revenue	56
18.	Central Government Expenditure	57
19.	Operations of the Social Security Agency	58
20.	Operations of the Decentralized Agencies	59
21.	Operations of the Public Enterprises	60
22.	Nonfinancial Public Sector Gross Domestic Debt	61

The Banking System

23.	Accounts of the Banking System	62
24.	Summary Operations of the Banking System	65
25.	Private Sector Deposits	66
26.	Offshore Operations of Private Banks	67
27.	Interest Rate Structure	68
28.	Banking System Credit to the Private Sector by Economic Activity	69
29.	Public Sector Banks—Operating Revenue and Expenditure	70
30.	Public Sector Banks—Portfolio in Arrears	72

External Sector

31.	Balance of Payments	74
32.	Summary Balance of Payments	76
33.	Composition of Merchandise Exports	77
34.	Petroleum Trade	78
35.	Nontraditional Exports and Issue of Tax Credit Certificates	79
36.	Composition of Merchandise Imports, c.i.f.	80
37.	Direction of Trade	81
38.	Net Services Receipts	82
39.	Operations of the Colon Free Zone	83
40.	Canal Statistics	84
41.	Principal Commodities Shipped Through the Canal	85
42.	Travel Receipts and Expenditure, and Number of Visitors	86
43.	Public Sector External Debt and Debt Service	87
44.	External Public Debt Indicators	88
45.	Operations on Medium- and Long-Term External Debt, Classified by Creditor	89
46.	Arrears on Public Sector External Debt Service	92

Appendix

I.	Summary of the Tax System as of September 30, 1998	93
----	--	----

Attachments

I.	Investment Projects in the Reverted Areas	101
II.	Canal Area Properties to be Transferred in 1999	102

Panama: Basic Data

I. Social and Demographic Indicators

Area (thousand sq. km)	77,082	Nutrition (1994)	
Population (1996)		Calorie intake	
Total (million)	2.7	(per capita a day)	2,534
Rate of increase (percent a year)	1.6	Health (1994)	
Density (per sq. km.)	35.9	Population per physician	808
GDP per capita (US\$) (1997)	3,229	Population per hospital bed (1992)	335
Unemployment (August 1998)	13.4		
Population characteristics (1995)		Access to safe water (percent	
Life expectancy at birth (years)	73	of population, 1995)	
Crude birth rate (per thousand)	22.8	Total	82
Crude death rate (per thousand)	4.9	Urban	84
Infant mortality (per thousand live births)	22.6	Rural	68
Income distribution (1995)		Education (in percent, 1995)	
By highest 20 percent of households	60	Secondary education	
By lowest 20 percent of households	2	enrollment rate	68

II. Economic Indicators, 1993-97

	1993	1994	1995	1996	1997
(In annual percent changes)					
National accounts and prices					
GDP at constant 1982 market prices	5.5	2.9	1.8	2.4	4.4
Agriculture and mining	0.3	2.8	3.1	0.6	-0.9
Manufacturing and construction	14.5	3.7	1.3	-0.7	4.0
Services	3.7	4.5	1.6	3.6	4.8
Consumer price index (end of period)	1.0	1.3	0.8	2.3	-0.5
(In percent of GDP)					
Gross investment	24.1	24.5	26.2	23.6	25.4
Private consumption	53.9	53.7	54.6	56.2	55.3
Public consumption	21.3	19.7	20.2	20.0	20.4
Gross national saving	22.0	24.1	22.8	22.0	22.4
(In millions of balboas)					
Public sector finances					
Revenue 1/	2,056	2,202	2,301	2,271	2,414
Noninterest expenditure	1,833	1,792	1,868	1,964	2,178
Primary balance (deficit -)	223	411	441	312	308
Overall balance (deficit -)	-101	25	14	34	-28
Memorandum items:					
Primary balance (percent of GDP)	3.1	5.3	5.6	3.8	3.5
Overall balance (percent of GDP)	-1.4	0.3	0.2	0.4	-0.3
Money					
Quasi-money	704	800	816	833	992
Net domestic assets	3,732	4,298	4,700	5,016	5,725
Credit to the public sector	3,802	4,259	4,797	5,142	5,913
Credit to the private sector	-523	-801	-1,031	-851	-1,011
	4,981	5,756	6,521	7,002	7,948

Panama: Basic Data (Concluded)

	1993	1994	1995	1996	1997
	(In millions of U.S. dollars)				
Balance of payments					
Trade balance	-377.9	-248.6	-569.2	-510.6	-593.4
Exports, f.o.b.	614.7	672.4	742.9	761.4	804.5
Imports, f.o.b.	-1,552.10	-1,852.7	-1,979.9	-2,076.2	-2,349.3
Colon Free zone	559.5	931.7	667.7	804.2	951.4
Services and transfers (net)	94.9	218.3	299.9	378.3	329.2
<i>Of which: Interest on public debt</i>	-338.6	-354.0	-393.2	-243.3	-286.2
Current account	-282.9	-30.3	-269.3	-132.3	-264.3
Capital account	458.5	-67.9	16.1	532.1	406.9
Public	196.1	-230.8	-68.7	-168.4	-336.2
Private	262.4	162.9	84.7	700.5	743.1
Overall balance	175.6	-98.2	-253.2	399.8	142.6
Net foreign assets of BNP	377.6	631.6	708.7	952.1	1,082.3
External payments arrears	3,236.0	3,526.2	3,938.1	97.3	43.5
Memorandum items:					
Debt-service ratio 2/	26.3	20.3	21.9	15.4	44.4
Current account (as percent of GDP)	-4.3	-0.4	-3.4	-1.6	-3.0
External debt outstanding (as percent of GDP)	78.0	71.2	75.2	61.8	57.9
IMF data (as of October 31, 1998)					
Article VIII status				As of 11/26/46	
Intervention currency and rate				B 1.00 per U.S. dollar	
Quota				SDR 149.6 million	
Fund holdings of local currency				SDR265.75 million	
From Fund resources (including SBA and EFF)				128.0	
Fund holdings as percent of quota				177.6	
Arrears with the Fund				None	
Special Drawing Rights Department					
Cumulative SDR allocation				SDR 26.32 million	
Net acquisition or utilization (-) of SDRs				24.55 million	
Holdings of SDRs				1.77 million	
Share of profits from gold sales				US\$5.7 million	

Sources: Panamanian authorities; and Fund staff estimates.

1/ Excluding grants.

2/ External debt service as percent of exports of goods and nonfactor services. The 1997 figure reflects debt restructuring involving the retirement of Brady bonds.

INTRODUCTION

This report provides background information to the staff report for the 1998 Article IV consultation discussions with Panama. It presents an overview of recent developments and chapters focusing on areas of interest in Panama's medium-term economic strategy. The first chapter gives a broad overview of economic developments with emphasis on 1997. Subsequent chapters update information on important areas of economic activity: the structure and reform of the financial sector (Chapter II); reversion of the Canal Zone areas to Panama (Chapter III); and analysis of key elements of the economic reform program since 1994, including trade reform and other measures to foster competitiveness and competition (Chapter IV).

I. MACROECONOMIC TRENDS

1. **Following the political and economic crisis of 1988–89, when real GDP fell by a cumulative 18 percent, the economy experienced a broad-based recovery with high rates of real GDP growth.** The recovery was facilitated by the lifting of economic sanctions and large aid flows by the United States, and was supported by an economic program that succeeded in restoring financial stability and began to address structural distortions. However, progress with respect to deregulation, privatization, and public sector reform was limited.

A. Developments During 1990–92

2. **Reform policies initiated during 1990–92 were supported by loans from the IBRD and IDB, grants from U.S. AID, and by a 1992 Stand-by Arrangement with the Fund.** Economic growth rebounded, inflation remained low and unemployment, which was almost 19 percent in 1989, fell to 14.7 percent in 1992. While the condition of the public finances improved, at least one structural reform was reversed and progress in other structural areas was slow. The overall public sector deficit was reduced from an annual average of 10 percent of GDP during 1988–89 to 1.3 percent of GDP in 1991 and turned into a small surplus in 1992. The strengthening of the fiscal position resulted particularly from enhanced tax administration and an improvement in the finances of the Social Security Agency (CSS). However, a structural rigidity was reinstated in 1991 when the Supreme Court reactivated special labor laws that had been suspended since 1988, granting again automatic wage increases to more than 50 percent of civil servants. The public sector accumulated sizable external arrears during 1988–91, but in 1992 arrears with multilateral institutions were settled and agreement was reached to reschedule a substantial part of the debt owed to Paris Club creditors. During 1990–92 some liberalization of the trade regime was achieved through the conversion of quantitative trade barriers to ad valorem tariffs.

B. Developments During 1993–96

3. In the period preceding the 1994 elections, the economy slowed as economic reforms lost momentum, and the overall public sector balance returned to a small deficit. **The government that assumed office in 1994 began to implement a medium-term program of economic reforms to promote economic growth and to reduce unemployment while maintaining low inflation in the context of a reasonable fiscal balance.** The reform agenda included public debt restructuring, trade liberalization, privatization, and other measures to foster private sector participation and competition. The program was supported by a Stand-by Arrangement with the Fund beginning in November 1995.

4. **Real GDP weakened substantially to an annual average of about 2½ percent during 1994–96** with negative growth in mining, construction and Colon Free Zone (ZLC) activities (Table 1). Dampened conditions were due in part to the crisis in Mexico, virtually halting major residential construction in Panama City and reducing trading activity through the ZLC. During this period **unemployment remained near 14 percent** (Table 9). The persistence of high unemployment was associated with rigidities in the labor market and the low labor absorption of some of the more dynamic sectors in the economy (SM/96/164, Rev. 1). **Inflation remained low**, averaging around 1½ percent a year during 1994–96 (Table 11). Panama does not have an exchange rate policy since the U.S. dollar serves as legal tender and the balboa is used as a unit of account and to issue coins. The absence of domestic currency issue has contributed to the maintenance of price stability.

5. **Investor confidence and saving began to recover in 1993, in the period leading to the 1994 elections, and subsequently with the implementation of a program featuring a prudent fiscal policy, structural reforms, and external public debt restructuring.** Private investment increased from an annual average of about 13 percent of GDP during 1990–92 to 21 percent of GDP during 1993–96. Private saving rebounded from 12½ percent of GDP to 19 percent of GDP over the same periods (Table 3). Public investment and saving also increased, especially during 1994–96, relative to the years immediately following the crisis. As a result of the recovery in saving, the external current account deficit declined, to 1½ percent of GDP in 1996.

6. After a small deficit of 1.4 percent of GDP in 1993 when tax administration and CSS performance weakened, **the public sector finances shifted to small surpluses during 1994–96 as a result of the implementation of the government's reform policies** (Table 15). In 1994 expenditure control improved, and in 1995 strong revenue collection efforts by the central government and the CSS were only partly offset by automatic government wage increases, higher external interest obligations, and increased spending by the CSS on pensions and medical services. A Tax Incentives Harmonization Law was passed in June 1995, and important progress was made in 1996 to prepare for the privatization of ports.

7. In the context of low inflation, the monetary and credit aggregates grew at a faster pace than real GDP. Broad money grew by an annual average of about 10½ percent a year during 1993–96, while private sector credit grew by around 13½ percent a year (Tables 23 and 24). While the public sector continued to build up deposits in the domestic banking sector during 1993–95, there was a further accumulation of external arrears. The clearing of most of these arrears and the debt-reduction operations in 1996 led to an increase in bank credit to the public sector. The net foreign assets of the banking system increased from US\$1.9 billion in 1993 to about US\$2.5 billion in 1996, of which 38 percent (US\$952 million) was held by the National Bank of Panama (BNP). Interest rates continued to track international market developments and the spread between deposit and lending rates declined slightly from 1.5 percentage points in 1993 to 0.8 percentage point in 1996.

8. **After recording deficits for most of the 1990s, the overall balance of payments shifted to a surplus in 1996** mainly because of lower interest obligations and a recovery in net re-exports from the ZLC. With the economic recovery, imports increased significantly, widening the trade deficit. This was partly offset in 1994 by strong growth in canal traffic, ZLC net re-exports, and related transportation activity. In 1996 the trade deficit was more than offset by net capital inflows, including direct investment mainly in tourism and port projects.

9. **To normalize relations with private creditors and bilateral lenders, action was taken to settle arrears and reduce external debt and debt service in 1994–96.** In 1994 the government completed an external bond exchange, settling arrears with private creditors of about US\$425 million, while the BNP settled US\$103 million in interbank deposit arrears with commercial banks that had been outstanding since 1984. In 1995 about US\$60 million of enterprise debt owed to commercial banks that had fallen into arrears was restructured. In July 1996 a debt and debt-service reduction operation was concluded resulting in a 29 percent reduction on three-fourths of the external debt, including a debt package of US\$3.8 billion with commercial banks (with the government issuing Brady bonds) and oil debt obligations with Mexico and Venezuela totaling US\$308 million.¹ As a result of these operations, in 1996 interest relief amounted to 2 percentage points of GDP. External debt declined from 75 percent of GDP in 1993 to about 62 percent of GDP in 1996.

C. Developments in 1997

10. **In 1997 the government continued to implement its medium-term economic program.** The reforms enacted in 1997 included further privatization (port and telecommunications services), trade reform, and steps to convert the supplementary civil servants pension fund into a voluntary self-financed plan. In addition, the government began to reorient government expenditure to social priorities, improve CSS operations, and to encourage investment in the canal zone areas reverting to Panama. In December 1997, the IMF Board

¹See EBS/96/148, Appendix II for a detailed explanation of these operations.

approved an extended arrangement with Panama to support the continued implementation of the government's program.

11. **Economic growth in 1997 rose to 4½ percent with both private and public investment rising, inflation remaining low and unemployment declining** (Figure 1). Following privatization, significant investment to modernize two major sea ports led to a strong pick up in activity in the ZLC and in the ports. Privatization of telecommunications (including the national phone company and cellular services) also fostered an expansion of these services. At the same time, several new mining and construction projects began, while tourism related services continued to grow at a moderate pace. While national saving grew, investment rose at a faster pace and the external current account deficit widened to 3 percent of GDP in 1997.

12. Trade reform² and lower world prices for food products contributed to a decline in the inflation rate in 1997. The 12-month change in the CPI was negative (0.5 percent) in 1997; wholesale prices declined by 3.9 percent (a decline of 6.3 percent for wholesale imports) (Table 11). As regards unemployment trends, the unemployment rate declined to 13.4 percent in August 1997 (from 14.3 percent in August 1996), and preliminary data suggest that it remained at that same level in August 1998.

Public sector

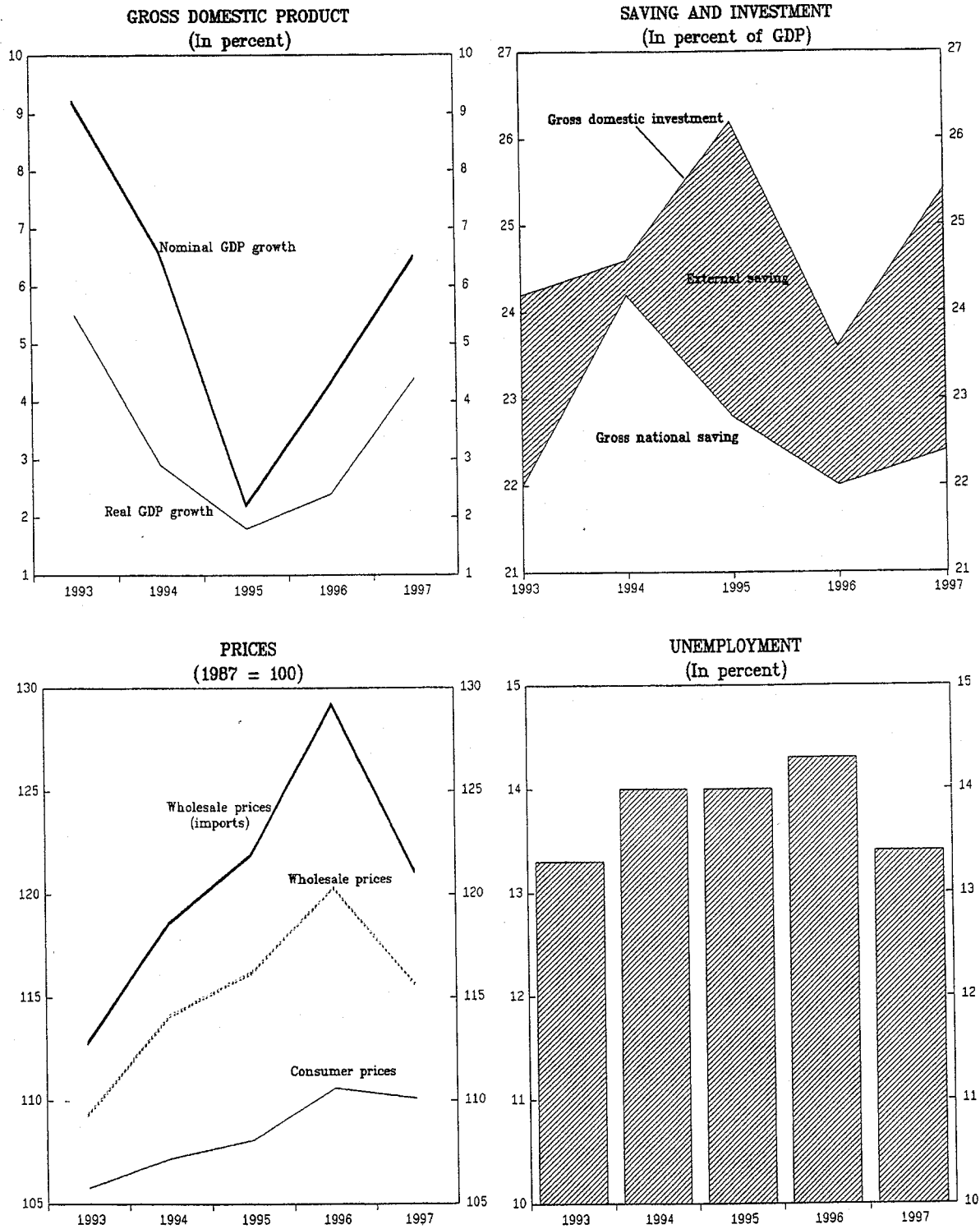
13. The **overall balance of the nonfinancial public sector** moved from a small surplus in 1996 to a deficit of 0.3 percent of GDP in 1997 reflecting the fiscal cost of structural reforms initiated in 1996 (Figure 2). Nevertheless, privatization proceeds contributed to a build-up in the net foreign assets of the nonfinancial public sector in 1997 (Table 15).

14. The **central government** balance also shifted from a small surplus in 1996 to a small deficit in 1997 (Table 16). Revenue fell by ½ percent of GDP; with tax revenue remaining steady (in part due to improved tax administration and buoyant economic activity and despite trade liberalization), and nontax revenue (particularly transfers from the rest of the public sector) declining following the privatizations (Table 17). In relation to GDP, total expenditure increased in 1997 as a result of automatic wage increases, higher spending on goods and services, and improved implementation of investment projects (Table 18). Further debt-reduction operations (described below) resulted in an increase in external interest expenditure in 1997.

15. The operating deficit of the **Social Security Agency** continued to widen in 1997 because of the higher pension payments and spending on medical services outstripped the revenue enhancements achieved through administrative reforms, including door-to-door inquiries and collections. The overall surplus of the CSS continued to deteriorate (to

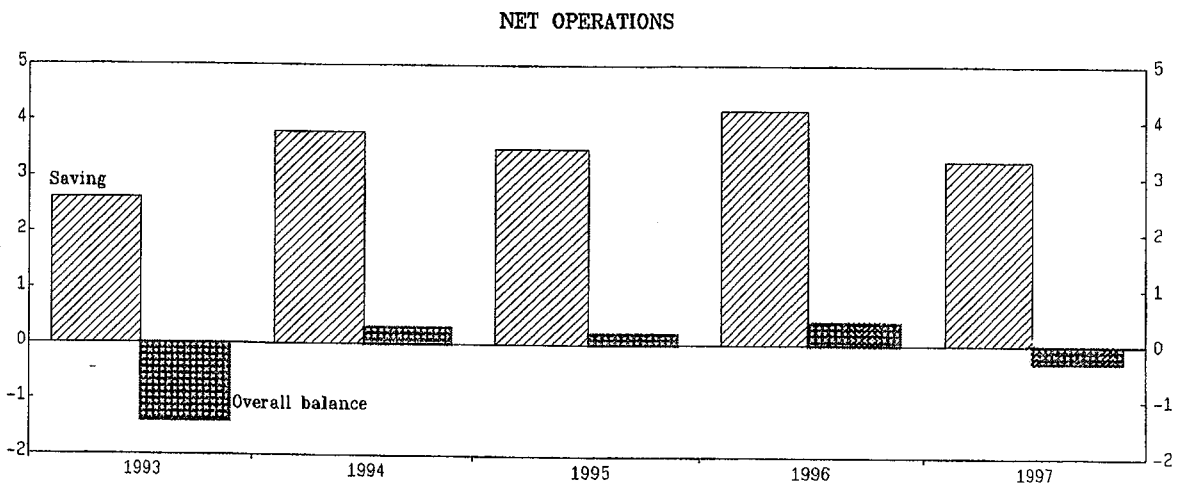
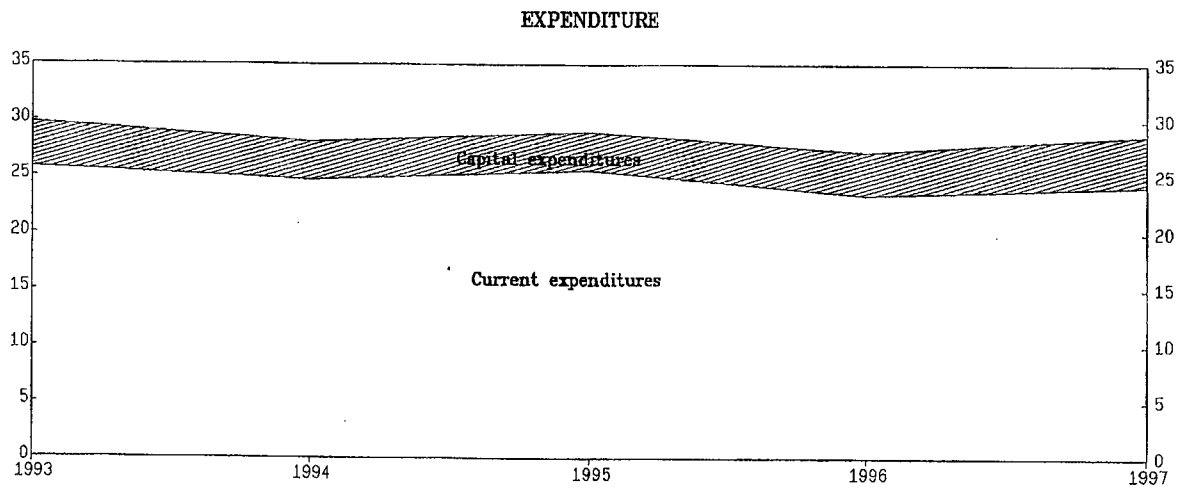
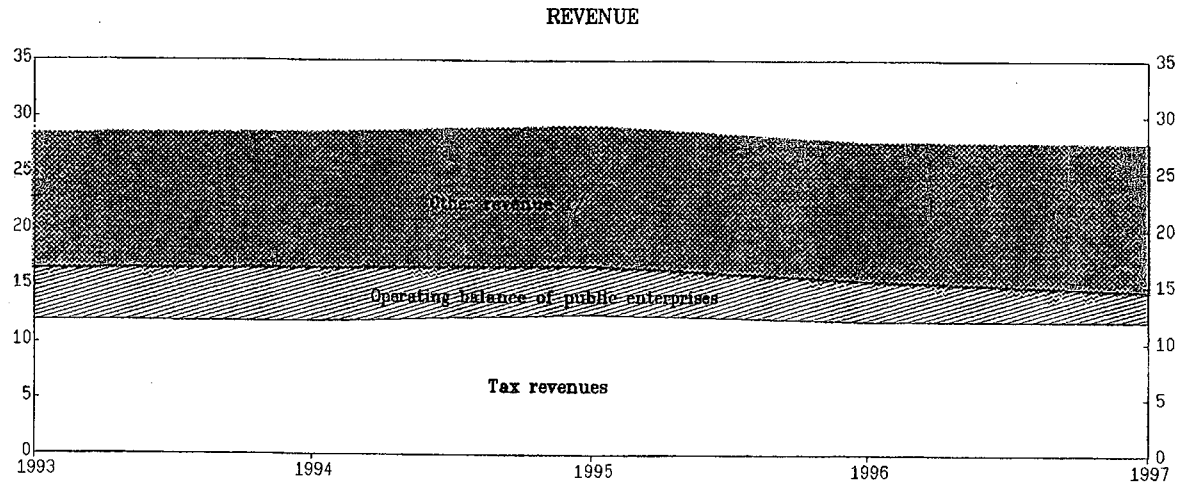
²See chapter IV.

Figure 1. Panama
Real Sector Developments



Sources: Panamanian authorities; and Fund staff estimates.

Figure 2. Panama
Public Sector Operations
(In percent of GDP)



Sources: Panamanian authorities; and Fund staff estimates.
1/ Includes Central Government non-tax revenue, and revenues of the Social Security Agency (CSS) and the decentralized agencies.

0.1 percent of GDP) in 1997 (Table 19).³ To safeguard the actuarial integrity of the CSS, a study was initiated with technical support from the International Labor Organization to review the long-term funding aspects of the pension scheme and other benefits program. The report circulated in mid-1998 for public discussion suggests that cash deficits could occur in about a decade.

16. The **decentralized agencies**, including the University of Panama, continued to incur operating deficits that needed to be funded through central government transfers of about 1 percent of GDP in 1997 (Table 20).

17. The operating surplus of the **public enterprises** declined mainly as a result of privatizations to 2.7 percent of GDP in 1997 (compared with 3.6 percent of GDP in 1996), especially due to the sale of the telephone company to the private sector (Table 21). Continued high losses in certain public utilities (from system leakages and illegal connections) accounted for weak revenue collections. Privatization also explained the continued decline in public enterprise investment to slightly under 1.1 percent of GDP in 1997.

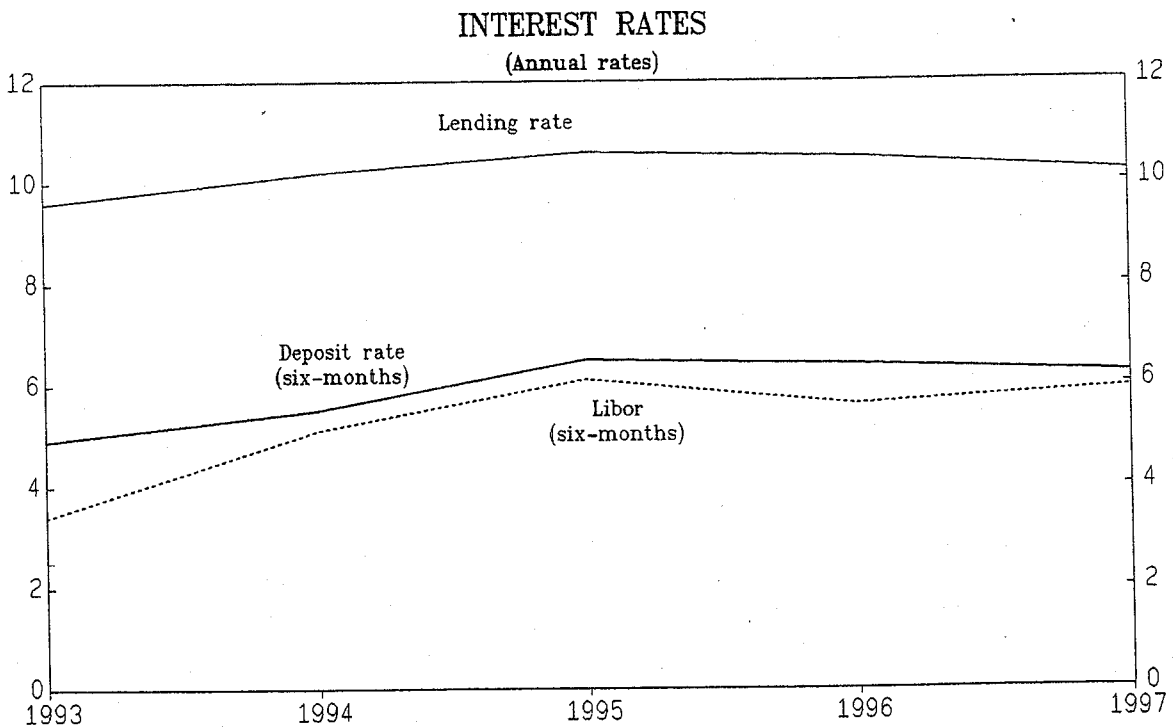
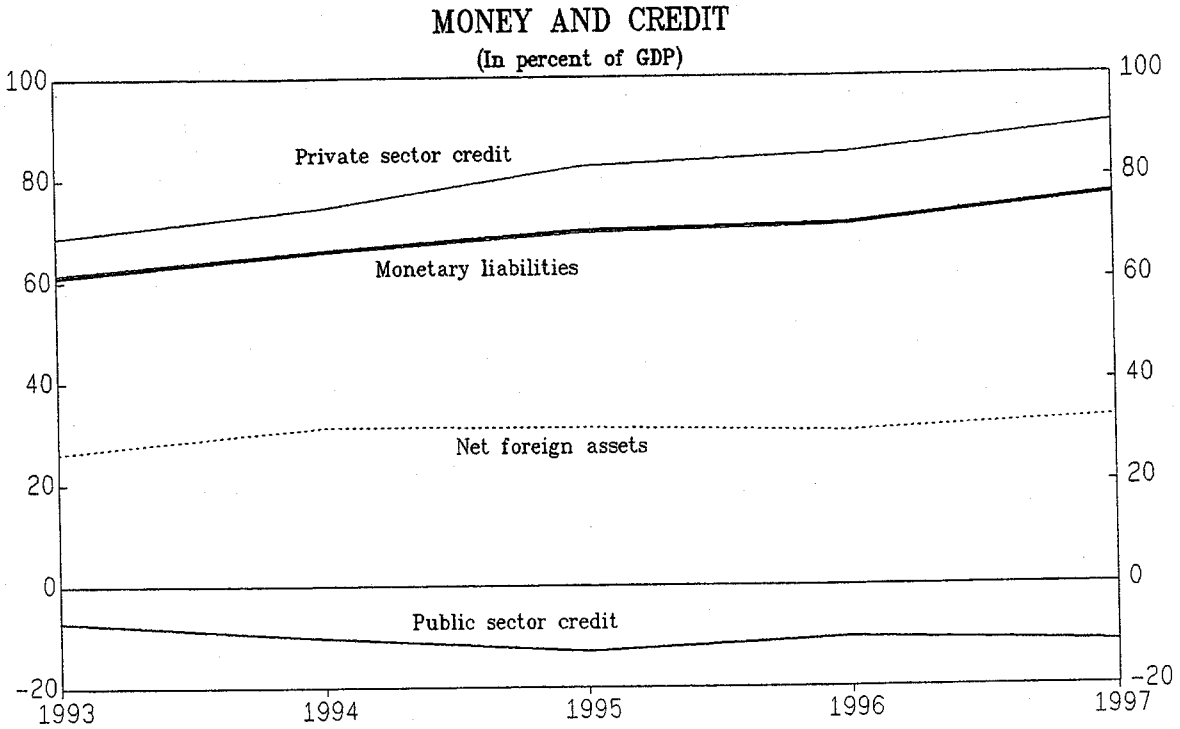
Monetary sector

18. **Bank liabilities and credit to the private sector have continued to grow somewhat faster than GDP.** The growth of the banking system's liabilities to the private sector increased to 15½ percent in 1997 (from 8 percent in 1996) and remained high (14½ percent) in the year ended in June 1998 (Table 23). Growth was particularly strong in demand and saving deposits (Table 25). Similarly, domestic credit to the private sector increased by 13½ percent in 1997 (from 10½ percent in 1996), and accelerated to 19 percent in the year ended June 1998. Credit to finance commercial and financial activity as well as personal consumption has grown rapidly in recent years (Table 28). With a high level of liquidity in the system, the net foreign assets of the banking system rose to US\$2.9 billion at end-1997 (32½ percent of GDP), an increase of 2.3 percent relative to private sector liabilities at the beginning of the year. Following international trends, commercial lending rates declined to 10.2 percent by end-1997 (and to 9.9 percent in June 1998) while deposit rates have remained stable (Figure 3).

19. **New banking legislation that became effective in June 1998 incorporated the recommendations of the Basel Committee** on banking supervision, including consolidated supervision of banks that are licensed for offshore and other international operations. The new law strengthens banking supervision through the establishment of a new superintendency with broad power. Foreign assets of offshore banks amounted to about US\$23 billion a year from 1994 to 1997, and declined to about US\$22 billion in June 1998, as a result of the withdrawal of one bank from Panama (Table 26).

³Financial investment through home mortgage lending by the CSS was halted in 1996.

Figure 3. Panama
Monetary Developments



Sources: Panamanian authorities; and Fund staff estimates.

20. **The new banking law and prudential standards now also apply to state banks.** In addition, plans for restructuring their operations are currently being developed. The operating profits of the Savings Bank and National Mortgage Bank (BHN) in 1997 were marginally lower than in 1996 (Table 29). Despite increased operating expenditure, the performance of the two banks in early 1998 improved over the same period in 1997. While the Savings Bank improved its investment performance, the Mortgage Bank was more successful in collecting loan payments. On the other hand, the Agriculture Development Bank recorded operating losses in 1997 and in the first six months of 1998, in part because of drought (*El Niño*) which affected its relatively large agricultural portfolio.

21. **While for private banks, the ratio of nonperforming loans to total lending has remained low, in the case of state banks, this ratio fell** from 14.8 percent in 1996 to 10.6 percent by end-1997, but rose slightly to 11.4 percent in June 1998 as further arrears accumulated (Table 30). The BHN forgave over US\$35 million in interest arrears during 1997 (see Chapter II) and the Agricultural Development Bank began a much smaller program of debt forgiveness in July 1997.

External sector

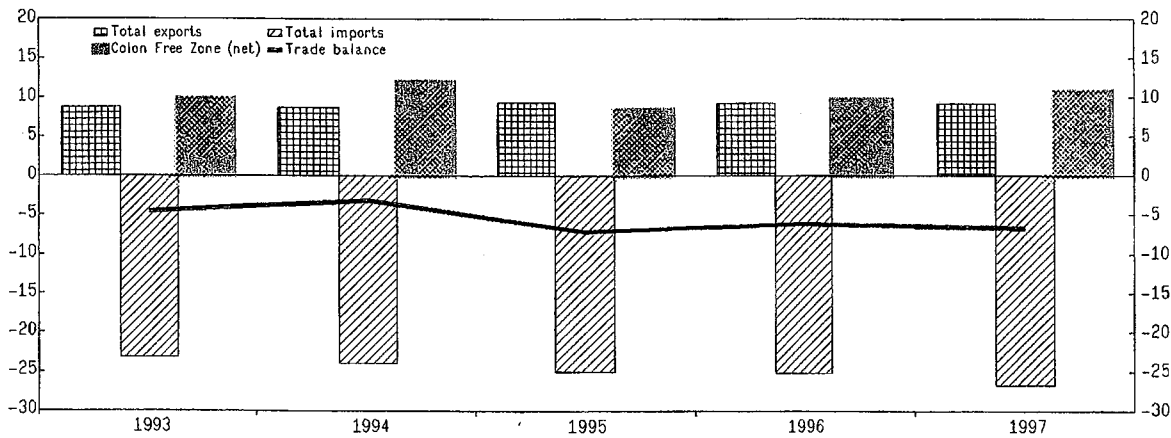
22. The external **current account** deficit widened to 3 percent of GDP in 1997 from 1½ percent of GDP in 1996 (Table 32 and Figure 4). The trade deficit grew as imports associated with expanding investment were not fully offset by the growth in exports and ZLC net re-exports (Table 39). The services trade surplus fell in 1997 as growth in canal activity and tourism was insufficient to counter the increase in imported freight and insurance services connected with ZLC activity and the increase in external interest payments resulting from debt-reduction operations. The **capital and financial account** remained in surplus and the **overall balance of payments** declined to US\$143 million in 1997, and net foreign assets of the BNP rose by US\$130 million.

23. The **real effective exchange rate** of the balboa was relatively stable during 1997 (with a 12-month appreciation of 0.8 percent), as the nominal effective appreciation of the U.S. dollar was mostly offset by the low rate of inflation relative to the major trading partners (Figure 5). The real effective exchange rate was unchanged in the 12 months through September 1998.

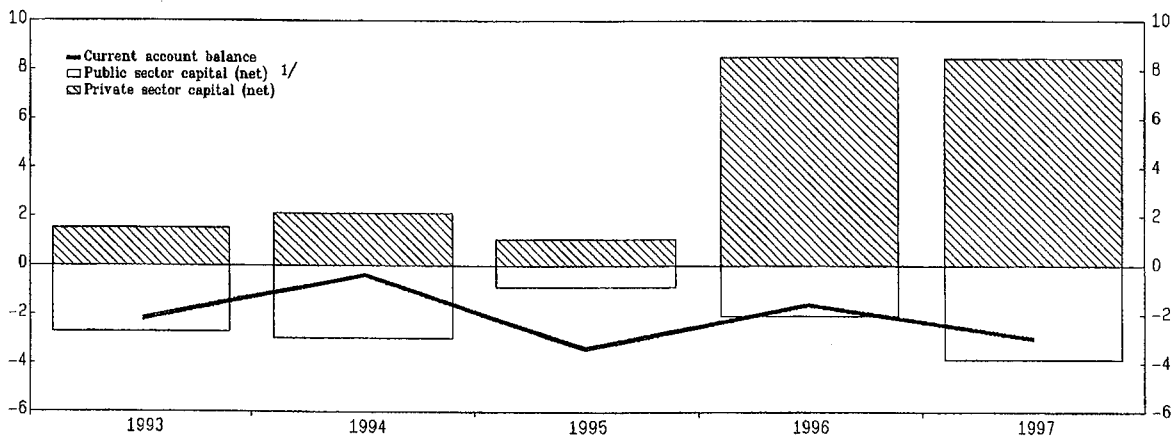
24. **In 1997 and 1998 the government undertook three separate debt-reduction operations by issuing international bonds to retire some of the Brady bonds issued in 1996 (Tables 43 and 45).** In March–April 1997, five-year Eurobonds were placed for US\$500 million and proceeds were used to retire Brady bonds with a similar face value for about US\$400 million. A second debt reduction operation was conducted in September 1997 when 30-year Global bonds for US\$700 million were exchanged for Brady bonds with a similar face value and about US\$100 million in cash. These two operations lengthened the

Figure 4. Panama
External Developments
(In percent of GDP, unless otherwise indicated)

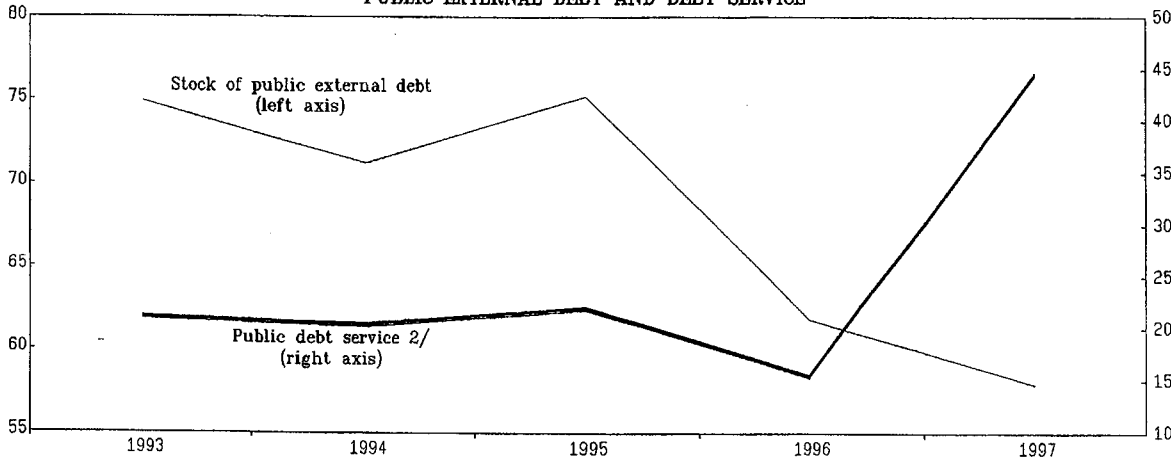
MERCHANDISE TRADE



CURRENT AND CAPITAL ACCOUNTS

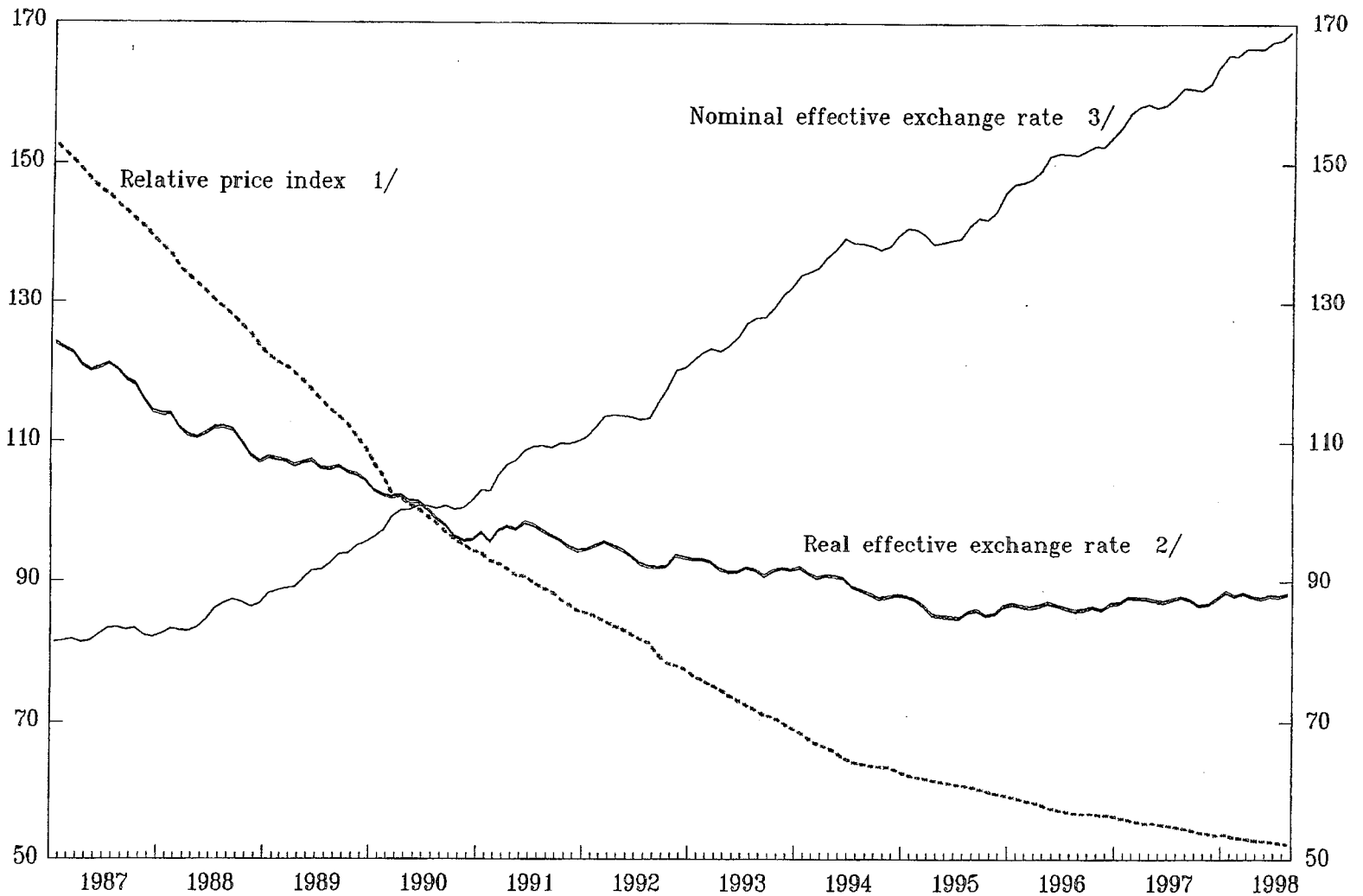


PUBLIC EXTERNAL DEBT AND DEBT SERVICE



Sources: Panamanian authorities; and Fund staff estimates.
1/ Includes grants.
2/ In percent of exports of goods and nonfactor services.

Figure 5. Panama
Exchange Rate Developments
(1990 = 100)



Source: IMF Information Notice System.

1/ Relative prices measured by seasonally adjusted consumer price index.

2/ IMF 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; seasonally adjusted.

average maturity of public debt while retiring Brady bonds at a discount. The bond exchanges resulted in a small increase in debt-service payments due during 1999–2000. The saving in net present value was US\$77 million in the case of the Eurobonds, and US\$95 million in the case of the Global bonds. The transactions released Brady bond collateral of US\$13.7 million. A third operation was conducted in April 1998 when US\$300 million in ten-year U.S. dollar bonds with an annual interest rate of 8.25 percent were issued to retire US\$70 million in Brady bonds and domestic debt, and to improve cash flow management. While the 1998 operation led to a small reduction in the net present value of external debt, it increased debt and debt service by a small amount during 1999–2000.

25. **As a result of the operations described above, the stock of external debt in relation to GDP fell from 62 percent in 1996 to about 58 percent in 1997 (Table 44).** By the end of 1997 the public external debt amounted to US\$5.1 billion (from a peak of US\$5.9 billion in 1995), of which less than 1 percent was in arrears. Following settlement of a dispute with a private creditor in October 1997, the remaining arrears were owed to Libya (because of a United Nations' sanction) and creditors that could not be identified since the 1996 debt restructuring. In 1997, total external debt-service payments in relation to GDP increased temporarily to 17.2 percent (44.4 percent of exports of goods and nonfactor services) due to the debt-reduction operations.

II. FINANCIAL SECTOR—UPDATE

A. Institutional Framework

26. The financial sector in Panama comprises the banks, the stock exchange, insurance and reinsurance companies, finance houses, and leasing companies. The most important component of the sector is the banking system, which accounted for more than 90 percent of financial sector assets and net worth in June 1998.

27. The banking system consisted of four public banks and 101 private banks in June 1998. The **public banks** are the National Bank of Panama (BNP), the Savings Bank, the National Mortgage Bank (BHN), and the Agriculture Development Bank (BDA). The “international banking center”⁴ excludes the BHN and the BDA because they do not take deposits from the public. The BNP is the largest bank in terms of domestic credit and deposits and has the largest number of branches (49). It acts as the financial agent for the public sector, performs the functions of a clearing house, and ensures an adequate supply of U.S. currency to the banks. The Savings Bank is a mortgage bank, specializing in financing medium-income customers, and has 37 branches around the country. **Private banks** operate under three types

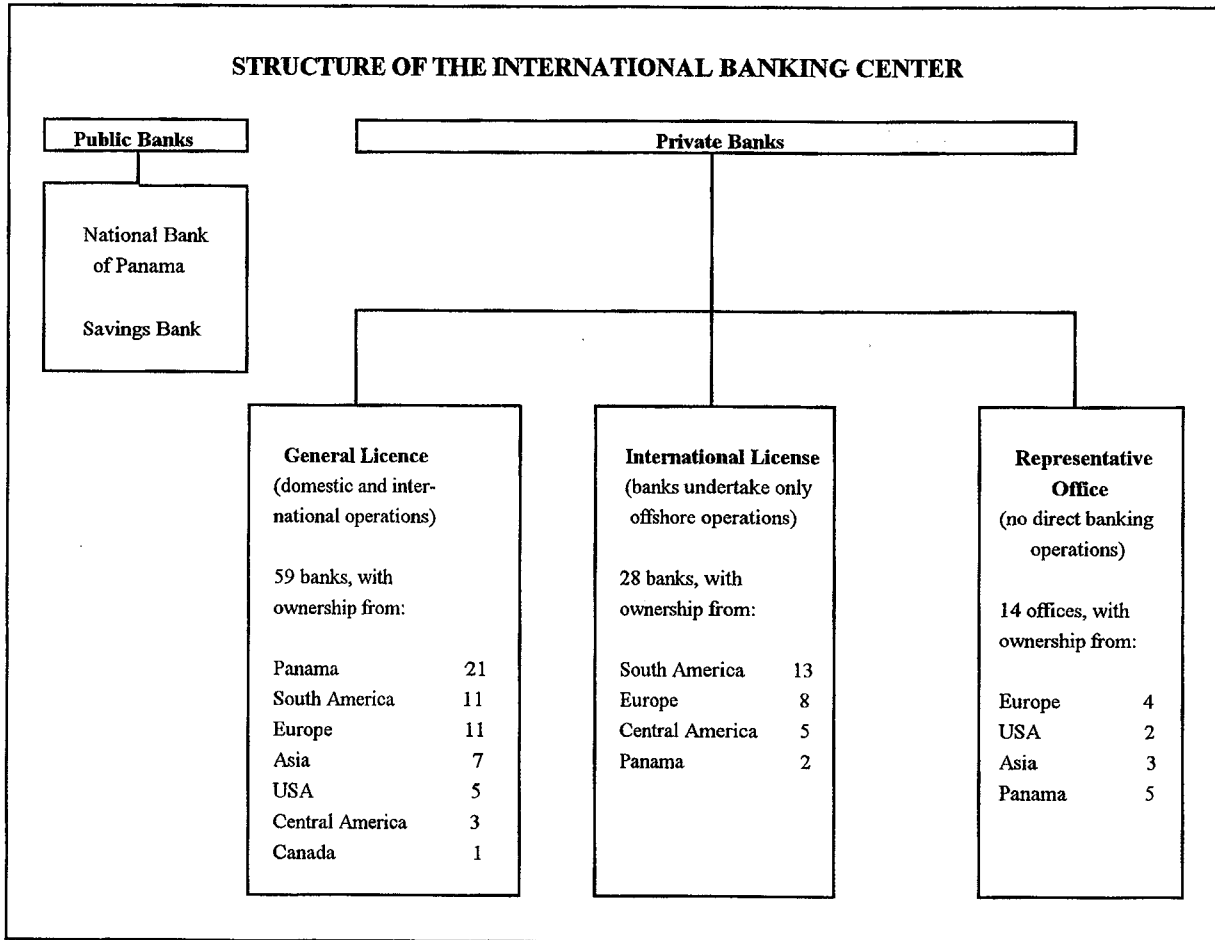
⁴The phrase “international banking center” is commonly used in Panama to describe the private banks and deposit-taking public banks.

of licenses: general, international and representative office. Of the 101 private banks, 21 general license banks are incorporated locally.

28. The **stock exchange**, established in 1990, has developed at a rapid pace but the market accounted for only around 5 percent of total lending by the financial system in 1997 and is highly concentrated in domestic private sector fixed-income securities. Only 26 of the 122 stocks listed on the exchange are traded.

29. The legal framework for **insurance and reinsurance companies** is provided in Laws 54 and 55 of 1984, which established the "Insurance and Reinsurance Center" to foster offshore insurance activity. At present, there are 26 insurance companies and 20 reinsurance companies with total assets amounting to around US\$498 million.

30. **Finance houses** in Panama specialize in small-scale financing, including credit for consumer durables. All finance houses are incorporated locally and some are affiliated with nonfinancial business enterprises. They are not authorized to accept deposits from the public. Their main source of funds (80 percent) is borrowing from commercial banks. There were 133 companies, with total assets of US\$680 million at the end of 1997; 42 were engaged in leasing.



Reform of the financial sector

31. Efforts to modernize the financial sector include the application of international supervision standards and best practices. In this context, a three-year supervision strengthening program that began in mid-1998 with Inter-American Development Bank support covers: (i) banking, (ii) the securities market; and (iii) investment and pension funds.

32. **New Banking Law.** A new law governing the banking sector was approved by Cabinet Decree-Law No. 9 on February 26, 1998 and came into force on June 12, 1998 (replacing the 1970 law on which Panama's international banking center was based). The new law replaced the National Banking Commission with a stronger Superintendency of Banks that has powers to effectively supervise banking operations and intervene in banks facing difficulties.

33. The superintendency is the most important regulatory agency in the financial sector. It has administrative and financial independence and enhanced supervisory functions to inspect and regulate banks, including public banks. The general policy of the superintendency is

determined by a five-member executive board, while day-to-day operations are run by a superintendent.

34. The main improvements outlined under the new Banking Law are described below.

Capital adequacy requirements:

- Apply uniform capital adequacy requirements consistent with international practices recommended by the Basel Committee. Banks must maintain capital funds of at least 8 percent of their risk weighted assets and off-balance sheet operations.
- Raise the minimum capital requirement for general license banks from US\$1 million to US\$10 million.
- Eliminate the requirement to maintain contingency credit and legal reserves with other banks.

Credit concentration limits:

- Set the credit concentration limits to 25 percent of a bank's capital funds (rather than as a percent of its capital, reserves, and deposits as stipulated under the old law).
- Eliminate exemptions from those limits (including credit to the State and credit secured by collateral worth 15 percent of the loan amount).
- Raise the limit to 30 percent for banks with mixed capital and headquarters in Panama that are primarily lenders to other banks.

Regulations on credit to related parties:

- Set strict limits on guaranteed and nonguaranteed lending to related parties.
- Establish an overall ceiling of 75 percent of capital on lending to related parties that is not guaranteed by deposits.
- Include limits on lending to bank employees, and to firms related to bank directors, the bank, or an associated economic group.
- Permit exemptions, under specified conditions, that can be granted by the superintendent for nonguaranteed interbank lending involving a mixed capital bank with its headquarters in Panama.

Regulations on consolidated supervision:

- Provide for consolidated supervision. Powers have been given to the superintendency to supervise Panamanian bank branches and subsidiaries overseas. Similarly, foreign banks in Panama may be subject to consolidated supervision by their home authority.

Regulations on bank secrecy:

- Maintain bank secrecy; however, the superintendency has power to gather all information necessary to adequately supervise banks (including information on deposits, assets, and capital) while maintaining the confidentiality of this information.

35. Key regulations associated with the new Banking Law, to be implemented by end-1998, will cover definitions of financial groups; limits on credit concentration and credit to related parties; consolidated supervision; and bank secrecy within strengthened surveillance of the banking system. The superintendency published regulations on capital adequacy and liquidity requirements on October 14, 1998.⁵ Regulations 5 and 6 outline rules for general and international license banks, respectively. These regulations stipulate definitions of capital (including loss provisioning), the weighting of assets by risk, and limits on global risk concentration. Banks were granted 180 days from the date of publication of the regulations to attain these capital adequacy requirements.

36. **Rationalization of public banks.** The government is seeking ways to improve efficiency in the provision of financial services. The operations of the state-owned Savings Bank are expected to improve under the new Banking Law because it is now subject to the same strengthened supervisory guidelines that are applied to the rest of the banking system.

37. **New Securities Law.** To make the Panamanian securities market more transparent and trust worthy, an improved Securities Law is expected to be approved in 1998 to replace the 1970 securities legislation. At present, the Ministry of Commerce and Industry delegates supervisory functions to the National Financial Assets Commission. The new Securities Legislation would replace this Commission with a financially and politically autonomous body, and seek to bring the stock exchange to international standards through stronger disclosure requirements, prevention of insider trading, supervision of traders, and establishment of electronic trading to improve custody and settlement of transactions. New instruments would include securities accounts and repurchase agreements.

38. **Pension Funds.** In February 1997 a law was passed to convert the supplementary civil servants' pension fund into a private, voluntary, self-financed plan (SIACAP). Appointment of the SIACAP administrative council took place in May 1998. In 1998 pensioners were given

⁵Regulations are available on the superintendency's web page:
<http://www.superbancos.gov.pa/>.

the choice of cashing in their benefits or rolling over their funds into SIACAP. Those choosing to leave the fund have been paid by the government for their benefits.

Operations of the banking sector

39. **Overview.** The growth of the banking system's liabilities to the private sector increased from 8 percent in 1996 to 15½ percent in 1997, and remained high (14½ percent) in the year ended June 1998 despite global financial instability (Table 23). Net domestic credit (mainly to the private sector) increased by 13½ percent in 1997 and by 19 percent in the year ended in June 1998, accompanied by a small improvement in the net foreign asset position of the banking system. Domestic interest rates have followed trends in international markets (see Chapter I).

40. **Public banks.** Although the **BNP** acts as a commercial bank (in addition to its role as a public bank—see paragraph 2), the size of its operations with the private sector is small and has declined over time. As of June 1998, the BNP accounted for 4.7 percent of total domestic monetary liabilities to the private sector and 3.4 percent of total credit to the private sector, while in 1996 these ratios were 5.1 percent and 4.3 percent, respectively.

41. The BNP continued to grow during 1997. The net foreign asset position of the BNP rose from US\$952 million in 1996 to US\$995 million in September 1998, the operating balance amounted to US\$45 million in 1997, and the loan portfolio in arrears was maintained at around 4 percent of the total private sector loan portfolio in 1997 (Tables 23, 29, and 30). The net creditor position of the public sector with the BNP grew from US\$853 million in 1996 to US\$1,076 million in 1997, resulting from an accumulation of deposits by the autonomous public entities, in particular fixed-term deposits of the social security agency, which exceeded the credit to the central government. Capital and surplus of the BNP rose from US\$387 million at end-1996 to US\$482 million at end-September 1998.

42. While the recent performance of the public sector has strengthened the liquidity position of the BNP, the BNP continues to depend on public sector deposits as a source of funds. A significant proportion of the investment portfolio of the BNP is in short-term deposits with maturities ranging from overnight to 180 days. Interest on these deposits represents its main source of income.

43. Similar to the BNP, the size of the **Savings Bank** operations with the private sector is small and has decreased over time. In 1997 the Savings Bank accounted for about 5 percent of total domestic monetary liabilities to the private sector and around 5 percent of total credit to the private sector. Official capital and surplus increased from US\$80 million in 1996 to US\$91 million in 1997, including the revaluation of real state assets. However, the operating surplus fell from US\$4.6 million in 1996 to US\$3.3 million in 1997. The loan portfolio in arrears increased slightly from 15.1 percent of the total loan portfolio in 1996 to 15.4 percent

in 1997 due to the accumulation of arrears on consumer loans from 10.3 percent to 14.9 percent in the same period.

44. The financial position of the **BHN** has weakened further. Operating profits declined from US\$4.2 million in 1996 to US\$3.2 million in 1997. At the end of 1997 arrears were estimated to be 4 percent of the credit portfolio (US\$195 million). The arrears ratio declined as a result of the forgiveness in March 1997 (under Law 12) of interest arrears on loans up to US\$25,000 on projects financed through the Ministry of Housing. The largest BHN expenditure is interest on deposits to the social security agency.

45. The **BDA** has experienced a continued deterioration of its financial position. Operating losses increased from US\$3 million in 1996 to US\$3.8 million in 1997 and the loan portfolio (excluding portfolio classified as bad loans) increased marginally from US\$74 million in 1996 to US\$76 million in 1997, of which 26 percent has been in arrears.

46. Regarding the operations of **private banks**, deposits grew by 14.8 percent in 1997 compared with 6 percent growth in 1996 (Table 25). This reflects the strengthening of economic activity, mainly in the Colon Free Zone and in ports services. In 1997 domestic private sector deposits rose to the equivalent of 72 percent of GDP from 69 percent of GDP in 1996, indicating increased financial intermediation in the economy. The rise in deposits resulted in an increase in net foreign assets of the general license banks of around US\$240 million during 1997.

47. Private banks' credit to the private sector increased by 11.4 percent in 1997, faster than nominal GDP growth (6.5 percent). The growth of credit rose from US\$6.5 billion in 1996 to US\$7.2 billion in 1997 mostly for commerce, financial and insurance services, and consumer loans (Table 28). By end-1997, 40.2 percent of outstanding credit to the private sector was for commerce, compared with 39.7 percent at end-1996, and 15.2 percent was for personal loans compared with 14.6 percent, respectively. During this period credit for housing (25½ percent of bank credit to the private sector) and manufacturing (around 6 percent of total credit) remained unchanged, while the share of credit to agriculture and livestock declined.

Securities market

48. Trading volume in the securities market increased from US\$446 million during 1996 to US\$711 million in 1997; this 1997 total was surpassed in the first ten months of 1998. Most of this activity remains in the primary market. In 1997, 14 percent of the trading took place in the secondary market, compared to 22 percent in the first ten months of 1998. The market capitalization of the stock has increased significantly from US\$2.2 billion at end-1997 to US\$3.8 billion by June 1998, due to the admission of three important financial and insurance institutions. A project to introduce electronic trading began in 1998 and is expected to be in operation in the second quarter of 1999. The project is expected to cost about US\$0.5 million. Partners in this project include NASDAQ (New York) and the electronic exchange of Chile.

III. REVERSION OF THE PANAMA CANAL AND RELATED AREAS—UPDATE

A. Overview

49. Following its declaration of independence from Colombia, Panama ratified the Hay/Bunau-Varilla Treaty with the United States in December 1903, which gave in concession to the United States part of Panama's territory (called the Canal Zone) to build, operate, and protect an interoceanic canal across the Isthmus. In September 1977 the Governments of Panama and the United States signed new treaties (Torrijos-Carter Treaties) which entered into force on October 1, 1979, whereby Panama assumed general territorial jurisdiction over the Canal Zone. The Panama Canal Treaty of 1977 governs the operations, management, and protection of the canal through noon, December 31, 1999. The Treaty on the Permanent Neutrality and Operation of the Canal commits Panama and the United States to continue to protect the canal and to ensure its permanent neutrality beyond the expiration of the Panama Canal Treaty. The two governments envisaged a gradual transfer of land and facilities during 1979-99 encompassing an area of 147,400 hectares with military bases, ports, airports, schools, hospitals, and housing units bordering the canal.

B. Institutional Setup

50. Institutional arrangements have been made for the implementation of the Treaty of 1977. The Canal Zone Government was dissolved on September 30, 1979; the Panama Canal Company was replaced by the binational Panama Canal Commission on October 1, 1979; and several entities were established to facilitate the process of reversion.

51. The **Panama Canal Commission (PCC)** is in charge of managing, operating, and maintaining the canal until the expiration of the treaty on December 31, 1999. Since 1990, the Administrator of the PCC has been a Panamanian. The PCC is supervised by a nine member Board of Directors. Five members are nationals of the United States and four are Panamanian citizens proposed by the Panamanian Government and appointed by the U.S. Government. The legal status of the PCC was changed in February 1996 from a U.S. government agency to a U.S. government corporation (Public Law 104-106). The new status gives the PCC greater autonomy and flexibility to smooth the process of transferring the canal to Panamanian authority by the end of 1999.

52. The **Transition Commission for the Transfer of the Panama Canal** was created in January 1995 to prepare Panama for assuming the administration, operation, and maintenance of the canal by end-1999. The Transition Commission has been working closely with the PCC to modify legislation concerning the canal to make it consistent with Panamanian law.

53. The **Panama Canal Authority (PCA)** was created under Title XIV of the Constitution in November 1994. It is an autonomous state entity that will take over the management of the canal from the PCC at the end of 1999. The Organic Law of the PCA was

passed in June 1997, and by-laws and regulations will be completed before the end of 1999. The PCA will be run by an eleven-member board. Only a minority of board members can be nominated during any five-year presidential term. The chairman of the board will have cabinet rank in the government. Unlike its predecessor, the PCA will seek to make a profit on its operations. Accordingly, its board of directors will need to decide what margin of return should be built into the structure of toll charges. In August 1998 the present Administrator of the PCC was named the first Administrator of the PCA for a term through 2005. He will serve concurrently as Administrator of both agencies until the PCC ceases to exist at the end of 1999.

54. The **Interoceanic Region Authority (ARI)** is an autonomous government agency created in February 1993 to integrate the reverted areas into the Panamanian economy. To this end, the ARI is responsible for administering the reverting areas and for issuing the required regulations for leases, sales, concessions, and management contracts. The ARI has attracted investment projects in the areas of ports, industry, commerce, and tourism. The National Maritime Authority (AMN) coordinates the ports projects. Investment commitments in the reverting areas are estimated at US\$976 million for the period through the year 2000, and at US\$575 million in 2001–05. These amounts do not include investment in the canal (see below). Ports and maritime services account for about 36 percent of this total investment, while tourism projects account for 41 percent.

55. Associated construction employment in the reverting areas is expected to range from 3,300 to 9,200 people a year; permanent employment will increase from about 2,100 in 1998 to nearly 8,000 by end-2000. The ARI also is granting land concessions along the side of the canal for ship repair yards, cargo services, and warehousing and bunkering facilities. Privatization of the Cristobal and Balboa ports, and investment in two container terminals near the Atlantic mouth of the canal in 1997 increased the importance of this regional transshipment hub. A description of some of the major projects that have been approved and that are either completed or presently under construction is provided in Attachment I.

C. Main Features of the Canal and Assets Being Transferred

56. The canal was inaugurated on August 15, 1914. It measures 50 miles from the Atlantic to the Pacific side, and it takes about 8 to 10 hours for an average ship to transit the canal. Ships are raised and then lowered 85 feet during their passage between the two oceans by a system of three sets of locks: the Gatun, Pedro Miguel, and Miraflores locks. The canal has only been closed once, in 1915, due to landslides; it operates 24 hours per day, every day of the year.

57. The canal is dependent on natural water flows into Lake Gatún, one of the largest man-made lakes in the world, for the smooth operation of the system of locks. Each opening and closing of a set of locks uses some 52 million gallons of water. The natural watershed provided by Panama's forests (which face environmental risks due to changing agricultural

patterns), supplies most of the water feeding Lake Gatún. During periods of drought, the canal operators are required to undertake water conservation measures. In extreme periods, such as the drought caused by *El Niño*, the maximum draught of ships using the canal and transit speeds were reduced to limit ship depth when crossing the canal. Ship operators are notified well in advance of any changes in maximum draught and other rules, for efficient scheduling. Although the amount of cargo on a ship may have been affected, the restrictions did not significantly alter the number of ships per day that traversed the canal.

58. During the period 1980–97, the canal's activities have accounted for an annual average of 6.8 percent of GDP. During the fiscal year ended September 30, 1997, over 13,000 commercial ships passed through the canal, and toll revenue amounted to US\$493 million (Table 40). At the end of the 1997 fiscal year, the canal employed 9,766 people, of which 8,053 were permanent (7,441 Panamanians) and 1,713 temporary. In the last few years, the canal has been operating close to capacity.

59. Tolls on ships using the canal are based on net tonnage (or, if that is unavailable, on displacement tonnage). The first toll rate increase in the history of the canal occurred in 1974, and the most recent increase (7.5 percent), became effective on January 1, 1998. As a result of toll increases in 1997 (8.2 percent), toll revenues increased by 1.8 percent relative to the previous year, despite a 3.6 percent decline in the number of transits and a 4.2 percent decline in tonnage.

60. In accordance with the timetable stipulated by the Panama Canal Treaty, key assets in the reverting areas were handed back to Panama during 1979–98, including the ports of Balboa on the Pacific side and Cristobal on the Atlantic side, and the trans-isthmus railway. By the end of 1999 all remaining assets will be handed over to Panama. The military installations and associated properties yet to be reverted will be transferred on the dates shown in Attachment II. The value of land and facilities is estimated at US\$4.6 billion, excluding the value of the hydrographic basin in the canal area.

61. Currently, 91 percent of the physical surface consists of national parks, ecological reserves, and some contaminated areas, while 9 percent is settled. The area set aside for national parks constitutes around 40 percent of the canal area and includes five national parks; the operational area of the canal and military bases are located in the remaining 60 percent.

D. The Canal's Investment Program

62. The PCC's long-term investment planning is regularly adapted in light of traffic prospects and guided by the objective to provide reliable and efficient service. Investment has been financed with the PCC's own resources. The PCC's investment program for 1999–2005 amounts to some US\$867 million. Although much of the expenditure will be for capacity building (such as widening the Gaillard Cut), some also will be for replacement and modernization of canal equipment (tugboats, towing locomotives, and locks machinery and control systems). The canal is now able to accommodate about 35 to 37 vessels a day; upon

completion of the projects now in progress, capacity would increase to about 42 vessels a day. The need for an additional set of locks, as well as the financial viability of undertaking such a major project, will be evaluated by the authorities after the canal's reversion.

E. Development Strategy for the Reverted Areas

63. The interoceanic region that is to revert to Panama by the end of 1999 stretches from the Atlantic to the Pacific ocean on both sides of the Panama Canal. Five Army installations, two Air Force bases, and one Naval station were located in these reverting areas. The reverting areas contain many housing and residential areas, schools, hospitals, industrial areas, storage facilities, ports, marinas, golf courses, theaters, bowling alleys, and other recreational facilities. In addition, there are thousands of hectares of uninhabited land.

64. As noted above, the Panamanian Government created the ARI to promote and oversee investment in the reverting areas and to ensure that the development of the region is incorporated into the nation's development plan. The government has supported ARI's efforts to encourage foreign investment through a series of laws and decrees providing deregulation, tax and financial incentives, open trade policies, and flexible labor conditions. In its promotion of investment the ARI employs the following criteria for project approval. Projects must make a contribution to the Panamanian economy by generating local employment, contributing to exports, and using local materials and inputs when possible. Also, investors must comply with requirements for the protection of the Panama Canal watershed, which is critical for the long-term viability of the canal.

65. The ARI has identified four important areas of development for the region. They include maritime facilities and services, manufacturing and export industries, education, and tourism. Considerable development already has taken place in the maritime sector (see Attachment I). The country's two major ports have been privatized and modernized. Shipping-related service businesses are being established, in particular ship handling, salvage operations, and maritime insurance. An export processing zone has been established in the former Fort Davis, focussing on manufacturing and assembly. In addition to the establishment of university facilities in the reverting areas, the headquarters of the "City of Knowledge" has been founded in the former Fort Clayton to promote a broad range of educational activities. The tourism sector also is targeted for development, and several international investors have shown interest. Panama has a diverse ecosystem and an abundance of rare animal and plant life. The country also has about 2,000 miles of coastline on two oceans. Major projects are planned near Fort Amador at the Pacific mouth of the canal, including cruise ship facilities, hotels, and related services.

66. Although the reverted areas have a concentration of serviceable infrastructure in the military areas (including water supply, roads, telecommunications, and electricity), infrastructure in adjacent areas is somewhat weaker. The integration of these areas into the Panamanian economy therefore will require a significant upgrading and expansion of infrastructure. There also may be significant costs associated with the cleanup of contaminated areas.

F. Economic Impact of the U.S. Withdrawal and Other Issues

67. The phased withdrawal of U.S. troops from Panama will be concluded by the end of 1999. The U.S. military presence in Panama has contributed to the Panamanian economy through wages and salaries, purchases of goods and services, and expenditure related to treaty implementation. The total contribution in 1997 is estimated to have been US\$312 million (US\$319 million in 1996). The military installations provided direct employment to about 2,700 people in 1997 (3,200 in 1996). In addition, some 2,000 people worked as domestic help. Despite these losses permanent employment opportunities in the region will increase as investment projects mature (see paragraph 55), although average salaries may be somewhat lower. In the meantime, there has been a substantial increase in employment in construction.

68. The lack of a standing military in Panama means that the authorities will need to consider how best to address the issue of canal security once the U.S. military forces leave. Even though there will not be a U.S. military presence in Panama after end-1999, the United States is committed to defend and protect the canal indefinitely beyond that date under the Treaty on the Permanent Neutrality and Operation of the canal, which takes effect once the Panama Canal Treaty has been executed. This treaty provides that the United States can intervene unilaterally, if needed, to protect and defend the canal.

IV. PROMOTION OF COMPETITION

A. Introduction

69. The authorities have continued to strengthen the economy through measures to increase competition from abroad and domestically. Apart from privatization and labor market reform, this strategy has included trade reform and changes in the domestic regulatory environment.

B. Trade Reform

70. Beginning in the late 1980s when Panama had one of the most complex and distortionary trade regimes in the region, trade reform has transformed the country into one of the most open economies. Compared with the highly protective policies of the recent past, the current trade regime consists of lower, more uniform tariff rates, and no nontariff barriers to imports.

71. Law 3 of 1986 on the promotion of manufacturing granted protection to domestic producers in the agriculture and manufacturing sectors by imposing high tariffs on their final products and exempting them from high import tariffs on inputs. Under this law, registered companies producing for the local market received an exemption from import taxes on raw materials, semi-finished products, other inputs, packaging materials, and spare parts for five years. Thereafter, these companies were allowed to import these items after paying a

3 percent import duty. A 3 percent duty on machinery and equipment for registered agricultural and manufacturing firms began immediately. As a result of these exemptions, effective protection for these sectors tended to be high.

72. In 1990, before significant trade reform took place, the unweighted nominal average ad valorem tariff was 33 percent, with maximum ad valorem tariffs of 270.5 percent for agricultural products and 257.5 percent for manufactured goods. In addition to ad valorem tariffs, the trade regime included specific rates (ranging in ad valorem equivalents up to 435 percent), mixed rates, zero quotas, prior permits, extensive tariff exemptions, sanitary permits and registrations, and price references and controls.

73. Trade reform gathered momentum in 1991 with support from the World Bank under an Economic Recovery Loan.⁶ Many of the specific and mixed rates were converted into ad valorem tariffs, and nominal tariff ceilings were introduced in August 1991 for most products (90 percent for agroindustrial commodities and 60 percent on manufactured goods). Protection of agricultural products remained very high for basic grains; however, rates were much lower for some importers on a discretionary basis, if the goods were deemed to be used as inputs or an exemption was granted.

74. The 1995 Tax Incentives Harmonization Law (Law 28 of June 20) extended the right to all importers to import certain inputs and capital goods at a 3 percent tariff. Superseding the 1986 Law 3 that granted these rights to registered companies, the 1995 Harmonization Law states that the 3 percent tariff would apply to all importers of each relevant product until registration of the related firms expires. It is estimated that the registration of the last firm under Law 3 will expire in 2008. This law also equalized the applicable rate on agricultural products regardless of their use as an input or a final good, it phased out most of the tax breaks and subsidies on import-substituting activities and the tax credit for nontraditional exports, and it overturned sanitation rules that were inconsistent with World Trade Organization standards. Despite these improvements, nontariff barriers remained extensive, especially to protect domestic producers of foodstuffs.

75. Renewed efforts began in 1996 to further liberalize the trade regime. The February 1996 Competition Law introduced anti-dumping and countervailing provisions in line with World Trade Organization (WTO) standards. In April 1996 negotiations to join WTO were concluded. Under this agreement nontariff barriers were to be eliminated, and most nominal tariffs were to be reduced from 0–90 percent to 0–40 percent by December 1996 and to 0–30 percent within five years. Exceptions to these WTO negotiated binding tariff ceilings covered 80 customs classifications for agricultural and agroindustrial products.

⁶The trade regime and reform efforts through 1995 were outlined in the 1996 Recent Economic Developments (SM/96/164).

76. Consistent with the WTO agreement, in December 1996 and March 1997 further trade policy changes were made by Cabinet decrees that: (i) reduced maximum tariffs on industrial products to 60 percent and on agroindustrial products to 40 percent, from 90 and 50 percent respectively; (ii) reduced the tariffs on the main agricultural commodities to 20–60 percent, from 50–180 percent; (iii) transformed all remaining specific tariffs into ad valorem tariffs; and (iv) eliminated nontariff barriers to imports.

77. In July 1997 the Legislative Assembly approved the WTO Protocol and associated laws. On July 24, 1997, the cabinet passed decree No. 37 lowering the maximum tariff on construction materials, vegetable oils, and wheat and wheat products to 10 percent from 27–40 percent; this became effective on September 1, 1997.

78. The most recent set of trade reforms was passed on November 12, 1997 when the government issued Cabinet Decree No. 68.⁷ Effective January 1, 1998, the number of tariff bands was reduced from 108 to five; the rates are 0, 3, 5, 10, and 15 percent. The only exceptions to the new maximum rate of 15 percent were for rice (lowered to 50 percent from 60 percent), lactose products (lowered to 40 percent from 50 percent), and automobiles (remaining at 15–20 percent). Decree 68 further stipulated that the rate for rice will decline to 30 percent on January 1, 2000. A fourth exception for sugar was introduced on May 14, 1998 by Cabinet Decree 19, raising the maximum tariff to 50 percent on imports at prices below a ten year historical average level (after removing 35 percent of the lowest and highest prices) and leaving the maximum rate at 15 percent for all other sugar imports. This exception was added in response to complaints by domestic producers of dumping from overseas suppliers; the planned privatization of the La Victoria sugar mills also was taken into account.

79. To ameliorate the costs of adjustment to the new tariff structure, Cabinet Resolution No. 263 included a US\$25 million fund to finance reconversion and technological modernization of agricultural and manufacturing activities, and a US\$10 million fund to finance export market development. These funds are administered by BNP and lent at market rates. The resolution also provides for the sale of public silos to producer associations. Thus far, these programs have benefited producers converting to nontraditional products, such as the successful transformation of former salt miners into shrimp farmers.

80. Remaining distortions to a liberal and competitive trade system include tax credit certificates for nontraditional exporters (Certificados de Abono Tributario—CATs), export taxes on bananas and scrap metal, technical barriers concerning the registration of medicines, and exemptions to the sales tax on certain tradable goods. These remaining distortions are small and, in the most important cases, are being eliminated over time. The CAT certificates are granted to exporters of nontraditional exports that are wholly or partly produced or processed in Panama (Table 35). Currently the value of the certificates is based on 20 percent of

⁷Regional trade agreements could further liberalize the trade regime, especially joining the American Free Trade area that, when established, would harmonize and lower tariffs by 2005.

the domestic value added. This rate is scheduled to be reduced to 15 percent of the domestic value-added on January 1, 2000 and to be phased out by December 31, 2002. Export taxes on bananas that were imposed in 1993 (60¢ per box on exports of 24,000 boxes or more) began to be phased out in 1996 with the rate dropping to 25¢ in that year, 17¢ in 1997, 10¢ in 1998 and zero by January 1, 1999. Scrap metal is charged one percent of its value when exported; no plans exist to phase out this tax. Consistent with WTO accession, sanitation permits and registrations will follow WTO rules by end-1998 (although technical barriers to competition may exist involving registration of medicines, see below). Imports of inputs used in agriculture are exempt from the sales tax that is imposed at the border (*impuesto sobre transacciones de bienes muebles*, ITBM). This tax is also imposed on domestic products but is not applied to services. Generally the tax rate is five percent, except for alcoholic beverages and tobacco that are charged 10 percent.

Recent impact of the trade reform

81. Trade has grown steadily faster than the economy (which grew at a nominal rate of 5.3 percent during 1993–97) with exports increasing on an annual average basis by 6.6 percent (4.4 percent for non-oil exports) and imports by 9.8 percent (10.4 percent for non-oil imports) (Table 32). Increased trading activities and related shipments contributed to rapid growth in petroleum product exports (particularly bunker oil to ships) (Table 34). Simultaneously, the more liberal trading regime contributed to expansion in nontraditional primary exports (such as shrimp) and to significant increases in capital imports associated with rising levels of investment. Trade has become more focused on the region; the Western Hemisphere has become a more important destination for Panamanian exports and source of imports, with less importance for European trading partners (Table 37).

82. Nominal tariffs have been reduced dramatically since the beginning of the extended arrangement with the Fund in December 1997 and evidence suggests that effective protection also has been substantially reduced. In addition to lowering the maximum tariff rate generally from 60 percent to 15 percent, the reform that went into effect in January 1998 reduced tariff rate dispersion from 108 tariff rates to five (0, 3, 5, 10 and 15 percent). In August 1997 the International Trade Council in the Ministry of the Presidency estimated that the simple average tariff was 12.8 percent, and by August 1998 this rate had fallen to 9 percent. Based on the ratio of import duties collected to the value of imports, the average rate increased slightly, from 7.4 percent in June 1997 to 8.4 percent in June 1998. This increase was attributable to improved customs collections, an increase in imports that previously were discouraged under high tariff rates, and the reduction in the number of tariff lines below 5 percent. In some cases nominal rates increased, for example only 3,530 tariff lines are 5 percent or less in 1998 compared with 3,753 lines in August 1997 (see box below). Lower maximum rates and fewer tariff lines at the lowest rates tend to reduce effective protection.

Panama: Tariff Ranges and Lines

Tariff Ranges (In Percent)	Number of Customs Tariff Lines	Percent of Total Tariff Lines
August 1997		
0-5	3,753	44.6
5.01-10	1,449	17.2
10.01-15	783	9.3
15.01-20	618	7.3
20.01-25	111	1.3
25.01-30	864	10.3
30.01-35	88	1.0
35.01-40	640	7.6
40.01-50	77	0.9
50.01-60	5	0.1
Prohibited and restricted *	21	0.2
Other (unidentified)	1	0.0
August 1998		
0	366	4.3
0.1-3	2,672	31.3
3.1-5	492	5.8
5.1-10	1,871	22.0
10.1-15	3,018	35.4
15.1-20	26	0.3
20.1-30	4	0.0
30.1-40	42	0.5
40.1-50	4	0.0
Prohibited *	12	0.1
Restricted *	8	0.1

*Certain imports are prohibited or restricted for health and safety reasons.

83. Based on an index of aggregate trade restrictiveness developed in a recent Fund study on trade liberalization,⁸ Panama is rated 1 on the 10-point scale, reflecting its liberal trade

⁸See EBS/97/163, "Trade Liberalization in Fund-Supported Programs," August 27, 1997. The
(continued...)

regime. While the index covers the most critical elements of trade restrictiveness (average tariffs and nontariff barriers), it does not incorporate other elements such as tariff dispersion and exemptions. As noted above, tariff dispersion is moderate (generally 0–15 percent) and exemptions are now seldomly used.

84. While low inflation has been a key factor in the offsetting of the nominal appreciation of the currency in recent years, trade reform also has contributed to preserve competitiveness⁹ and has not led to a decline in tax revenue. The authorities hoped that the 1998 trade reform would have a neutral fiscal impact and stood ready to take additional fiscal measures to ensure that any reduction in revenues would not compromise the achievement of the planned fiscal target. In the event, import tax revenue through the first half of 1998 rose by more than 21½ percent relative to the first half of 1997. As noted above, in part this was the result of imports that, before the reform, were effectively prohibited by high tariff rates.

85. The World Bank has estimated that tariff reductions introduced in 1998 would lead to reductions in the prices of basic foodstuffs, which subsequently would more closely reflect international prices. The Ministry of Planning and Economic Policy has documented some of these price reductions for edible oils, poultry products, tomatoes, onions, potatoes, lentils, and beans. Combining estimates of price reductions with preliminary information from the recent living standards measurement survey, a preliminary study by the World Bank estimated that these price reductions would bring minimum benefits to the poor of 0.5 percent of GDP per year,¹⁰ will increase per capita consumption of the poor by 2.8 percent, and will reduce the population below the poverty line by almost 1 percent. The extreme poor will benefit relatively more than the rest of the population because they tend to spend more of their income on these basic food items.

86. In addition to lower prices on imports and import competing products, consumers have benefited from the trade liberalization through greater variety of products, increased points of distribution, and discounts for bulk purchases (yielding still lower prices per unit). Producers benefit through lower prices on inputs and developing markets with more sophisticated consumers. While producers who previously received the most protection will tend to lower (or cease) production, new opportunities for commerce have arisen based on the

⁸(...continued)

methodology of the index is discussed in the annex of the study.

⁹The real effective exchange rate has depreciated by 12½ percent since July 1990 because nominal appreciation has been more than offset by low inflation.

¹⁰The benefits are likely to be greater because these estimates assume zero elasticity of substitution for producers and consumers. In fact, the new set of relative prices will encourage producers to shift to higher priced items and consumers to lower cost goods, amplifying the benefits of the trade liberalization.

new set of relative prices (for example, the development of larger retail stores). At the same time, employees of formerly protected firms will need to shift into more productive activities. The transition costs are difficult to distinguish from other structural changes in the economy (such as privatization), and are to be mitigated by public funds (described above) to assist the private sector with the transition.

C. Changes in the Domestic Market

87. Competition in the domestic market has been enhanced through labor code reform, privatization of public enterprises and associated regulatory changes, and the removal of price controls. The August 1995 Labor Code reform gave more flexibility to private sector employers in their labor relations,¹¹ but did not address public employment issues. In addition to privatizing port operations (early 1997), the telecommunications firm (May 1997), and the railroad (February 1998), the authorities' privatization program includes the electricity company (privatized in November 1998), the water company (planned for mid-1999) and an airport. To encourage competition following the privatization of these enterprises, the authorities created a regulatory agency (Ente Regulador de Servicios Publicos) in January 1996, which has powers to enforce regulatory requirements for privatized public services (eventually covering telecommunications, electricity, and water). The February 1, 1996 Competition Law (Law 29) abolished the Price Control Office, created the Competition and Consumer Affairs Commission (CLICAC), and eliminated numerous price controls. The CLICAC is charged with the responsibility to enforce the anti-trust standards outlined in the Competition Law. In March 1997 all remaining price controls were removed, except on five goods with import tariffs above 40 percent; these exceptions lapsed in September 1997. With support from the World Bank, the authorities completed key by-laws associated with the Competition Law in September 1998 to: (i) define markets and the nature of monopolistic practices, including barriers to entry and exit; (ii) establish the basic principles for the assessment of economic efficiency; and (iii) state the essential elements of due process in the application of the law.

88. The first test of the new regulatory measures preceded the establishment of these new by-laws. The market for medicines has been cited frequently because of price increases that followed when controls were lifted. CLICAC and the Legislative Assembly have gathered information and held discussions with market participants. Rules concerning the registration of patented medicines have given exclusive importing and sales rights to the international manufacturers and domestic distributors of these products. Moreover, extended patent rights granted in Panama have inhibited the marketing of generic drugs, including by pharmacies. These restrictions (set out in Resolution No. 031 of February 1, 1997), also apply to cosmetics and similar products. In June 1998 the Minister of Health signed a resolution derogating part of Resolution No. 031, effectively reducing some administrative procedures that may have delayed imports. In July 1998 the CLICAC presented its report on the

¹¹See SM/96/164 for details.

Legislative Assembly's meetings on this topic. No solution has yet been agreed to remove these impediments to competition.

89. Powerful cooperatives still limit entry and competition in freight and passenger transport. Cargo costs have been inflated by restrictions on transportation between Panama and Central America, especially for cargo that originates in the Colon Free Zone (ZLC) because the ZLC administration strictly controls passes granted to truckers to enter the ZLC. For passenger transportation a technical committee run by service providers allocates routes, limits vehicles, and sets prices. In February 1998 the authorities removed restrictions on Central American truckers so that rules are homogeneous for all truckers regardless of the company's residency; however, the ZLC system remains unchanged.

D. Remaining Issues on Competitiveness

90. Shortcomings remain in key factor markets. Public and private labor markets are separated by different rules and incentives, limiting mobility within and across labor markets. In addition, land tenure remains an obstacle to efficient use of this resource. The World Bank reports that in 1990 about two-thirds of all land in use lacked property titles and that registration can take as long as ten years. This inhibits access to finance and the accurate assessment of opportunity costs. The authorities are preparing a land management program that includes a review of land tenure laws, establishment of a modern cadastre and registry, and a national titling process.

91. Competition in oil refining and marketing remains limited and market outcomes are distorted. A 20-year contract with the only oil refinery in Panama was granted in 1992 (under Law No. 31). The law initially set a 20 percent tariff on petroleum products in 1992 that was to be reduced by one percent per annum until the rate reached 5 percent (10 percent in the case of Bunker fuel). Exemptions to this tariff include products sold to ships carrying international cargo, aviation fuel (AvGAS), kerosene for airplane turbines, and imports needed to fill domestic supply that cannot be met by the domestic refinery. The law allows for other contracts with third parties to establish a separate oil refinery and to grant the same rights and privileges to the new refinery. In addition, the law stipulates conditions for the sale and distribution of petroleum derivative products and sets out definitions and rules on dumping and related sanctions. This system, which includes differential taxation, administered prices, tariffs and subsidies across different products and marketing agents combined with selective exemptions has led to a divergence between domestic prices and import parity, rationing, and sporadic quality problems.

92. Article 23 of the petroleum law fixes prices for each petroleum product. It grants the state the power to control domestic prices so that they will not fall below a calculated parity, while it also obligates the refinery to charge prices that are no higher than these parity prices. Parity prices are based on published variable costs (updated every 14 days) and fixed costs (updated annually) for each product. Variable costs include a published f.o.b. price in the Caribbean (itself a weighted average of four regional f.o.b. prices), fleet, insurance,

transportation losses, letters of credit, and storage losses, while fixed costs include unloading charges (with updates indexed to the CPI), storage at terminal costs (with updates indexed to the CPI), and capital (with updates indexed to production volumes). Thus, parity prices do not need to correspond to the costs of the petroleum refinery.

93. Productivity gains by the refinery add directly to its profitability or are shared with employees; however, the benefits are not passed on to consumers. The World Bank estimates that petroleum prices remain about 30 percent above U.S. levels, with the protected firm capturing most of the difference, to the detriment of other producers, consumers, and government revenues. A consultant for the CLICAC has shown that prices in Panama are among the highest in the hemisphere and has estimated that the transfer from consumers to producers due to this protection was about US\$73 million in 1997. The commission is continuing to investigate these distortions and is considering possible actions to increase efficiency and transparency in the market for petroleum products.

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

	1993	1994	1995	1996	1997
(In millions of balboas at 1982 prices)					
Gross domestic product at market prices	5,922.5	6,091.3	6,198.0	6,348.2	6,628.7
Primary activity	488.7	502.4	517.8	521.0	516.3
Agriculture	480.4	493.3	509.2	512.9	506.8
Mining	8.3	9.1	8.6	8.1	9.5
Secondary activity	832.7	863.2	874.6	868.4	903.1
Manufacturing	589.5	614.6	615.8	620.3	642.6
Construction	243.2	248.6	258.8	248.1	260.5
Services	4,506.7	4,710.1	4,784.2	4,954.1	5,190.5
Public utilities	240.0	255.0	259.9	311.0	321.7
Commerce, restaurants, and hotels	1,229.5	1,289.8	1,280.4	1,271.7	1,379.9
Colon Free Zone, wholesale	488.2	533.6	516.6	494.3	570.4
Restaurants and hotels	85.4	90.3	95.0	100.7	106.1
Other	655.9	665.9	668.8	676.7	703.4
Transport and communications	666.3	695.8	761.3	781.8	817.1
Panama Canal Commission	352.0	362.4	419.4	429.9	422.2
Other transport and communications	314.3	333.4	341.9	351.9	394.9
Financial intermediation	647.0	675.0	641.8	706.1	729.2
Housing	786.5	821.1	841.4	867.7	889.5
Public administration	612.1	632.0	653.5	665.3	690.6
Other services	325.3	341.4	345.9	350.5	362.5
Plus import taxes 2/	235.9	245.2	249.8	256.5	279.9
Less imputed banking services	141.5	229.6	228.4	251.8	261.1
(Percent change)					
Gross domestic product at market prices	5.5	2.9	1.8	2.4	4.4
Primary activity	0.3	2.8	3.1	0.6	-0.9
Agriculture	0.0	2.7	3.2	0.7	-1.2
Mining	16.9	9.6	-5.5	-5.8	17.3
Secondary activity	14.5	3.7	1.3	-0.7	4.0
Manufacturing	6.3	4.3	0.2	0.7	3.6
Construction	40.5	2.2	4.1	-4.1	5.0
Services	3.7	4.5	1.6	3.6	4.8
Public utilities	18.1	6.3	1.9	19.7	3.4
Commerce, restaurants, and hoteles	5.1	4.9	-0.7	-0.7	8.5
Colon Free Zone, wholesale	4.5	9.3	-3.2	-4.3	15.4
Restaurants and hotels	2.3	5.7	5.2	6.0	5.4
Other	5.8	1.5	0.4	1.2	3.9
Transport and communications	-3.2	4.4	9.4	2.7	4.5
Panama Canal Commission	-5.2	3.0	15.7	2.5	-1.8
Other transport and communications	-0.9	6.1	2.5	2.9	12.2
Financial intermediation	10.8	4.3	-4.9	10.0	3.3
Housing	2.3	4.4	2.5	3.1	2.5
Public administration	0.7	3.3	3.4	1.8	3.8
Other services	0.9	4.9	1.3	1.3	3.4
Plus import taxes 2/	40.4	3.9	1.9	2.7	9.1
Less imputed banking services	26.3	62.3	-0.5	10.2	3.7

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

	1993	1994	1995	1996	1997
(Percent distribution)					
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0
Primary activity	8.3	8.2	8.4	8.2	7.8
Agriculture	8.1	8.1	8.2	8.1	7.6
Mining	0.1	0.1	0.1	0.1	0.1
Secondary activity	14.1	14.2	14.1	13.7	13.6
Manufacturing	10.0	10.1	9.9	9.8	9.7
Construction	4.1	4.1	4.2	3.9	3.9
Services	76.1	77.3	77.2	78.0	78.3
Public utilities	4.1	4.2	4.2	4.9	4.9
Commerce, restaurants, and hotels	20.8	21.2	20.7	20.0	20.8
Colon Free Zone, wholesale	8.2	8.8	8.3	7.8	8.6
Restaurants and hotels	1.4	1.5	1.5	1.6	1.6
Other	11.1	10.9	10.8	10.7	10.6
Transport and communications	11.3	11.4	12.3	12.3	12.3
Panama Canal Commission	5.9	5.9	6.8	6.8	6.4
Other transport and communications	5.3	5.5	5.5	5.5	6.0
Financial intermediation	10.9	11.1	10.4	11.1	11.0
Housing	13.3	13.5	13.6	13.7	13.4
Public administration	10.3	10.4	10.5	10.5	10.4
Other services	5.5	5.6	5.6	5.5	5.5
Plus import taxes 2/	4.0	4.0	4.0	4.0	4.2
Less imputed banking services	2.4	3.8	3.7	4.0	3.9

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

1/ The national accounts for 1980-94 were revised and published in December 1995. The base year for the constant price data was updated to 1982 from 1970 and methodological improvements were implemented.

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

Table 2. Panama: National Accounts by Use

	1993	1994	1995	1996	1997
(In millions of balboas at current prices)					
Total domestic demand	7,198.9	7,577.8	7,986.8	8,229.8	8,876.4
Consumption	5,449.9	5,681.1	5,913.0	6,284.2	6,644.3
Public	1,543.2	1,525.6	1,595.1	1,650.5	1,788.2
Private	3,906.7	4,155.5	4,317.9	4,633.7	4,856.1
Gross domestic investment	1,749.0	1,896.7	2,073.8	1,945.6	2,232.1
Public	288.8	266.7	272.0	313.4	388.4
Private 1/	1,460.2	1,630.0	1,801.8	1,632.2	1,843.7
Balance of trade (goods and nonfactor services)	53.8	156.2	-80.7	13.8	-96.7
Excluding the Colon Free Zone	-212.7	-255.3	-231.3	-344.4	-463.8
Exports of goods and nonfactor services	2,715.2	3,074.7	2,990.3	3,117.0	3,397.3
Excluding the Colon Free Zone	1,999.0	2,143.0	2,322.5	2,312.8	2,396.5
Imports of goods and nonfactor services	2,661.4	2,918.5	3,071.0	3,103.2	3,494.0
Excluding the Colon Free Zone	2,211.6	2,398.3	2,553.8	2,657.2	2,860.2
Gross domestic product at current market prices	7,252.7	7,733.9	7,906.1	8,243.6	8,779.7
(In percent of GDP)					
Total domestic demand	99.3	98.0	101.0	99.8	101.1
Consumption	75.1	73.5	74.8	76.2	75.7
Public	21.3	19.7	20.2	20.0	20.4
Private	53.9	53.7	54.6	56.2	55.3
Gross domestic investment	24.1	24.5	26.2	23.6	25.4
Public	4.0	3.4	3.4	3.8	4.4
Private 1/	20.1	22.8	22.8	19.8	21.0
Balance of trade (goods and nonfactor services)	0.7	2.0	-1.0	0.2	-1.1
Excluding the Colon Free Zone	-2.9	-3.3	-2.9	-4.2	-5.3
Exports of goods and nonfactor services	37.4	39.8	37.8	37.8	38.7
Excluding the Colon Free Zone	27.6	27.7	29.4	28.1	27.3
Imports of goods and nonfactor services	36.7	37.7	38.8	37.6	39.8
Excluding the Colon Free Zone	30.5	31.0	32.3	32.2	32.6
Gross domestic product at current market prices	100.0	100.0	100.0	100.0	100.0
(Annual percent change)					
Total domestic demand	8.6	5.3	5.4	3.0	7.9
Consumption	2.4	4.2	4.1	6.3	5.7
Public	16.5	-1.1	4.6	3.5	8.3
Private	-2.3	6.4	3.9	7.3	4.8
Gross domestic investment	33.8	8.4	9.3	-6.2	14.7
Public	38.4	-7.7	2.0	15.2	23.9
Private 1/	32.9	11.6	10.5	-9.4	13.0
Balance of trade (goods and nonfactor services)	450.9	190.2	-151.7	-117.1	-801.4
Excluding the Colon Free Zone	68.3	20.0	-9.4	48.9	56.7
Exports of goods and nonfactor services	9.5	13.2	-2.7	4.2	9.0
Excluding the Colon Free Zone	5.7	7.2	8.4	-0.4	5.7
Imports of goods and nonfactor services	7.7	9.7	5.2	1.0	12.6
Excluding the Colon Free Zone	9.6	8.4	6.5	4.0	11.6
Gross domestic product at current market prices	9.2	6.6	2.2	4.3	6.5

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

1/ Includes changes in inventories.

Table 3. Panama: Saving and Investment

	1993	1994	1995	1996	1997
(In millions of balboas)					
Gross domestic investment	1,749.0	1,896.7	2,073.8	1,945.6	2,232.1
Fixed capital formation	1,723.8	1,873.2	1,972.7	2,069.3	2,276.0
Public sector	288.8	266.7	272.0	313.4	388.4
Private sector	1,435.0	1,606.5	1,700.7	1,755.9	1,887.6
Changes in inventories	25.2	23.5	101.1	-123.7	-43.9
Gross national saving	1,592.6	1,866.4	1,804.5	1,813.3	1,967.9
Public sector saving	187.8	290.2	278.6	342.5	290.1
Private sector saving	1,404.8	1,576.2	1,525.9	1,470.8	1,677.8
Foreign saving	156.4	30.3	269.3	132.3	264.3
(In percent of GDP)					
Gross domestic investment	24.1	24.5	26.2	23.6	25.4
Fixed capital formation	23.8	24.2	25.0	25.1	25.9
Public sector	4.0	3.4	3.4	3.8	4.4
Private sector	19.8	20.8	21.5	21.3	21.5
Changes in inventories	0.3	0.3	1.3	-1.5	-0.5
Gross national saving	22.0	24.1	22.8	22.0	22.4
Public sector saving	2.6	3.8	3.5	4.2	3.3
Private sector saving	19.4	20.4	19.3	17.8	19.1
Foreign saving	2.2	0.4	3.4	1.6	3.0

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

Table 4. Panama: Agricultural Production

	1993	1994	1995	1996	1997
(In millions of balboas at 1982 prices)					
Total	480.4	493.3	509.2	512.9	506.8
Crops	259.4	269.0	262.9	259.0	239.3
Rice	31.8	32.3	33.2	35.1	24.5
Corn	17.1	17.3	17.6	18.2	10.9
Bananas	130.5	136.1	126.6	115.7	109.2
Sugarcane	19.0	19.3	18.2	19.6	22.3
Coffee	11.8	13.2	15.0	15.0	14.1
Other	49.2	50.8	52.3	55.4	58.3
Livestock	155.0	157.3	159.3	168.0	170.6
Forestry	14.7	14.6	12.8	12.0	12.7
Fish	51.3	52.4	74.2	73.9	84.2
(Annual percent change)					
Total	0.0	2.7	3.2	0.7	-1.2
Crops	-3.0	3.7	-2.3	-1.5	-7.6
Livestock	-0.2	1.5	1.3	5.5	1.5
Forestry	0.7	-0.7	-12.3	-6.3	5.8
Fish	19.0	2.1	41.6	-0.4	13.9

Source: Office of the Comptroller General.

Table 5. Panama: Value Added in Manufacturing

	1993	1994	1995	1996	1997
(In millions of balboas at 1982 prices)					
Total	589.5	614.6	615.8	620.3	642.6
Food	227.2	237.1	245.5	249.1	263.0
Beverages	53.1	53.7	52.7	55.6	59.2
Tobacco	21.1	27.8	27.2	28.7	27.6
Petroleum products	21.1	15.1	10.5	19.0	17.4
Textiles and garments	42.8	38.1	34.4	32.0	30.0
Leather products and footwear	10.9	11.6	13.0	11.4	10.4
Wood and furniture	25.3	31.4	27.6	28.4	31.1
Paper products	26.1	29.9	30.6	28.8	27.2
Printing and publishing	14.2	15.2	16.2	13.5	12.9
Chemicals, rubber, and plastic products	58.1	57.6	59.3	56.8	57.2
Glass and other mineral products	45.5	49.9	45.2	41.1	44.2
Basic metal industries	10.8	9.8	10.9	13.7	17.6
Metal products, machinery, and equipment	19.3	21.5	22.7	21.2	24.5
Other	14.0	15.9	20.0	21.0	20.3
(Annual percent change)					
Total	6.3	4.3	0.2	0.7	3.6
Petroleum products	-19.8	-28.4	-30.5	81.0	-8.4
Total (excluding petroleum products)	7.6	5.5	1.0	-0.7	4.0
Food, beverages, and tobacco	3.8	5.7	2.1	2.5	4.9
Other products	12.3	5.2	-0.4	-4.3	2.8

Source: Office of the Comptroller General.

Table 6. Panama: Electricity Generation and Consumption

(In thousands of gigawatt hours) 1/

	1993	1994	1995	1996	1997
Net generation	3.15	3.36	3.52	3.82	4.05
Hydro	2.30	2.39	2.42	3.00	2.90
Thermal	0.85	0.97	1.10	0.82	1.15
Total consumption	2.49	2.67	2.87	2.98	3.30
Residential	0.75	0.79	0.85	0.86	0.94
Commercial	0.84	0.91	1.00	1.04	1.18
Industrial	0.41	0.43	0.46	0.47	0.47
Government	0.45	0.47	0.53	0.55	0.57
Petroterminal	0.01	0.01	0.01	0.00	0.00
Other	0.03	0.06	0.02	0.06	0.14

Source: Hydraulic Resources and Electricity Institute (IRHE).

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

Table 7. Panama: Private Sector Construction Permits,
District of Panama

(In thousands of square meters)

	1993	1994	1995	1996	1997
Total	968.9	912.4	827.9	925.3	702.4
Residential	706.7	550.4	505.8	430.0	354.9
Commercial	228.9	299.7	277.0	438.9	319.9
Industrial	29.0	14.8	14.4	26.8	3.9
Other	4.3	47.6	30.7	29.6	23.7

Source: Office of the Comptroller General.

Table 8. Panama: Domestic Sales of Petroleum

	1993	1994	1995	1996	1997
(In millions of U.S. dollars)					
Domestic sales	190.6	200.0	222.5	255.8	309.1
Gasoline	58.6	59.9	69.0	80.5	87.7
Diesel	79.9	88.5	93.7	103.8	126.9
Fuel oil	22.8	27.3	34.3	39.8	35.6
Kerosene	2.3	2.2	2.1	2.0	3.1
LP gas	16.3	17.3	19.4	22.1	33.1
Other products 1/	10.7	4.8	4.0	7.6	22.7
(In millions of barrels)					
Domestic sales	8.3	9.0	9.7	9.8	10.8
Gasoline	2.3	2.4	2.6	2.7	2.9
Diesel	3.1	3.7	4.1	3.6	4.3
Fuel oil	1.5	1.7	1.8	1.9	1.7
Kerosene	0.1	0.1	0.1	0.1	0.1
LP gas	0.8	0.9	0.9	1.0	1.0
Other products 1/	0.5	0.2	0.2	0.5	0.8

Source: Ministry of Commerce and Industry.

1/ Includes marine diesel.

Table 9. Panama: Labor Force Statistics 1/

	1993	1994	1995	1996	1997
(Thousands of persons)					
Total population	2,535.0	2,582.6	2,631.0	2,674.5	2,718.7
Working-age population	1,557.9	1,594.7	1,632.4	1,670.2	1,706.8
Total labor force 2/	940.3	967.3	1,007.9	1,012.1	1,049.4
Employment by activity	815.6	831.8	866.7	867.2	909.1
Agriculture and mining	189.3	167.9	181.9	176.0	171.6
Manufacturing	84.4	89.5	92.6	94.0	96.2
Public utilities	8.6	9.3	8.8	9.1	9.1
Construction	49.5	52.5	53.6	54.9	59.6
Commerce	135.0	146.1	152.1	153.0	168.1
Banking	17.9	19.4	19.7	22.1	22.8
Transport and communication	59.3	60.7	63.4	59.0	62.1
Other services	271.5	286.4	294.6	299.1	319.6
Unemployment	124.7	135.5	141.3	144.9	140.3
Memorandum items:					
Number of employed by:					
Public sector	156.6	163.3	161.4	160.2	161.8
Private business	323.4	340.4	354.3	359.4	372.7
Self-employed	236.1	232.8	247.0	250.3	275.9
Other	99.4	95.4	103.9	97.3	98.7
(Annual percent change)					
Total population	1.9	1.9	1.9	1.7	1.7
Working age population	2.4	2.4	2.4	2.3	2.2
Total labor force	2.7	2.9	4.2	0.4	3.7
Employed	4.3	2.0	4.2	0.1	4.8
Unemployed	-7.2	8.7	4.3	2.5	-3.2
(In percent)					
Labor force participation rate 3/	60.4	60.7	61.7	60.6	61.5
Employment ratio 4/	52.4	52.2	53.1	51.9	53.3
Unemployment rate	13.3	14.0	14.0	14.3	13.4
<i>Of which:</i>					
Metropolitan areas 5/	15.6	16.0	16.6	16.9	15.4

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

1/ Data are based on August surveys, except for total population which is a mid-year estimate.

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

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

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

5/ Includes the cities of Panama and Colon.

Table 10. Panama: Average Prices Received by Farmers

	1993	1994	1995	1996	1997
(In balboas per unit)					
Rice (100 lb.) 1/	12.12	12.56	12.87	11.91	12.32
Corn (100 lb.)	11.71	11.67	11.86	12.34	12.26
Beans (100 lb.) 2/	33.50	33.12	35.13	32.77	38.53
Potatoes (100 lb.)	18.88	26.29	23.40	24.72	19.30
Bananas (stalk)	2.46	2.68	2.17	2.61	2.76
Chicken (live, lb.)	1.20	1.23	1.24	1.21	1.23
Milk, fresh (bottle)	0.30	0.30	0.29	0.27	0.28
(In 1987 prices) 3/					
Rice (100 lb.) 1/	10.95	11.07	11.37	10.73	11.03
Corn (100 lb.)	10.58	10.29	10.48	11.11	10.97
Beans (100 lb.) 2/	30.27	29.19	31.04	29.52	34.49
Potatoes (100 lb.)	17.06	23.17	20.68	22.27	17.27
Bananas stalk	2.22	2.36	1.92	2.35	2.47
Chicken (live, lb.)	1.08	1.08	1.10	1.09	1.10
Milk, fresh (bottle)	0.27	0.26	0.26	0.24	0.25

Source: Office of the Comptroller General.

1/ First grade.

2/ Colorado or Chiricano.

3/ Deflated by the agricultural wholesale price index.

Table 11. Panama: Selected Price Indices 1/

(Annual percent change)

	1993	1994	1995	1996	1997
(Period average)					
Consumer price index	0.5	1.3	0.9	1.3	1.3
Wholesale price index	-0.3	2.0	3.0	2.1	-2.2
Imports	1.8	1.9	3.9	3.8	-4.1
Industrial products	-2.5	2.2	2.7	1.3	-0.9
Agricultural products	0.6	2.5	-0.2	-1.9	0.6
GDP deflator	3.6	3.7	0.5	1.7	2.0
(End of period)					
Consumer price index	1.0	1.3	0.8	2.3	-0.5
Wholesale price index	0.2	4.4	1.8	3.5	-3.9
Imports	1.0	5.1	2.8	6.0	-6.3
Industrial products	-1.4	4.4	1.5	2.2	-2.5
Agricultural products	3.4	2.1	-1.0	-0.9	0.8

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

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

Table 12. Panama. Consumer Price Index

(1987 = 100)

	Total	Food	Clothing	Housing	Miscellaneous
(In percent)					
Weights:	100.0	34.9	5.1	21.0	39.0
(Period average)					
1993	105.1	108.4	110.8	103.7	102.2
1994	106.5	110.0	111.5	103.6	104.1
1995	107.5	110.6	110.0	105.4	105.5
1996	108.9	111.4	109.0	108.2	106.9
1997	110.2	112.2	106.8	110.5	108.7
(End of period)					
1993	105.8	109.0	111.4	103.4	103.3
1994	107.2	111.7	108.9	104.2	104.5
1995	108.1	111.7	109.4	106.5	105.6
1996	110.6	113.6	108.8	110.2	108.4
1997	110.1	112.6	106.4	110.6	108.1
1993					
March	104.8	107.7	109.9	104.0	101.9
June	105.1	108.4	111.2	103.9	101.9
September	104.8	108.1	111.5	103.8	101.6
December	105.8	109.0	111.4	103.4	103.3
1994					
March	105.8	108.3	112.8	103.5	103.9
June	106.4	110.1	112.5	103.3	104.0
September	106.7	110.7	110.4	103.7	104.3
December	107.2	111.7	108.9	104.2	104.5
1995					
March	107.0	109.5	110.5	104.9	105.4
June	107.7	110.3	110.6	105.5	106.2
September	108.0	111.3	109.1	105.4	106.2
December	108.1	111.7	109.4	106.5	105.6
1996					
March	108.4	111.3	110.2	107.0	106.4
June	108.3	110.2	107.6	107.9	106.9
September	109.1	111.9	109.3	108.7	106.9
December	110.6	113.6	108.8	110.2	108.4
1997					
March	109.9	111.9	108.2	109.7	108.7
June	110.3	112.0	106.5	110.5	109.1
September	110.6	112.7	104.4	110.8	109.4
December	110.1	112.6	106.4	110.6	108.1
1998					
March	110.4	112.2	108.3	110.5	108.9
June	110.8	112.7	108.2	110.5	109.7
September	111.5	112.7	108.1	113.2	110.0

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

Table 13. Panama: Wholesale Price Index

(1987 = 100)

	Total	Imports	Industrial	Agricultural
(In percent)				
Weights	100.0	43.7	45.1	11.2
(Period average)				
1993	110.1	114.8	105.6	110.7
1994	112.4	116.9	107.9	113.5
1995	115.7	121.5	110.8	113.2
1996	118.2	126.2	112.3	111.0
1997	115.5	121.0	111.2	111.7
(End of period)				
1993	109.3	112.8	105.2	112.0
1994	114.1	118.6	109.8	114.4
1995	116.2	121.9	111.4	113.2
1996	120.3	129.2	113.8	112.2
1997	115.6	121.1	111.0	113.1
1993				
March	110.0	114.3	106.2	109.1
June	110.9	116.4	105.8	110.0
September	110.3	115.6	105.0	111.6
December	109.3	112.8	105.2	112.0
1994				
March	110.1	114.2	105.9	111.7
June	112.1	117.1	106.9	114.7
September	113.2	117.8	108.9	113.0
December	114.1	118.6	109.8	114.4
1995				
March	114.7	120.0	110.2	112.2
June	116.0	121.8	111.1	113.7
September	116.0	122.4	110.6	113.6
December	116.2	121.9	111.4	113.2
1996				
March	117.8	126.3	111.6	109.9
June	117.0	124.3	111.4	111.0
September	117.6	125.0	112.2	111.0
December	120.3	129.2	113.8	112.2
1997				
March	115.8	121.3	111.7	111.0
June	115.4	120.8	111.2	111.1
September	115.3	120.7	111.0	111.7
December	115.6	121.1	111.0	113.1
1998				
March	111.6	115.1	108.1	112.8
June	111.1	113.9	108.0	113.2

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

Table 14. Panama: Selected Energy Prices

Detail	1992	1993	1994	1995	1996	1997
(Balboas per megawatt hour)						
Electricity rates						
Weighted average	116.4	115.4	115.5	115.5	112.8	111.6
Residential	123.3	121	120.5	120.5	120.5	118.0
Commercial	119.6	119.4	119.2	119.2	119.5	118.1
Industrial	102.6	100.9	100.7	99.4	99.4	99.4
Government	113.8	113.1	103.4	112.7	111.6	111.0
(Balboas per gallon)						
Petroleum prices						
Gasoline premium	1.89	1.59	1.62	1.66	1.78	1.76
Gasoline regular	1.81	1.51	1.52	1.62	1.67	1.67
Diesel	1.18	1.07	1.13	1.20	1.30	1.26
Kerosene	1.10	1.05	1.10	1.18	1.23	1.14

Sources: Hydraulic Resources and Electricity Institute (IRHE); and Ministry of Commerce and Industry.

Table 15. Panama: Operations of the Nonfinancial Public Sector

	1993	1994	1995	1996	Prel. 1997	Preliminary Jan. - Jun.	
						1997	1998
(In millions of balboas)							
Revenue	2,055.8	2,202.0	2,301.0	2,271.2	2,413.7	1,198.3	1,254.6
General government revenue	1,684.3	1,782.3	1,962.7	1,997.8	2,118.3	1,036.3	1,126.4
Central government	1,150.8	1,204.3	1,287.2	1,325.9	1,447.4	680.4	775.0
Social security agency	474.6	522.3	586.5	613.5	613.0	324.4	319.2
Rest of general government	58.9	55.7	89.0	58.4	57.9	31.5	32.3
Public enterprises operating balance (deficit -)	335.5	369.3	341.3	293.5	240.4	143.1	83.3
Overall balance of nonconsolidated public sector (deficit -)	-5.2	12.2	-18.0	-16.0	20.8	9.3	48.8
Educational insurance balance (deficit -)	22.3	13.9	-0.8	-22.7	4.1	-1.7	-19.4
Capital revenue	18.9	24.3	15.8	18.6	30.1	11.3	15.5
Grants	0.1	1.0	7.8	4.6	70.6	50.0	50.0
Expenditure	2,156.8	2,178.5	2,294.4	2,242.1	2,512.0	1,239.4	1,375.0
General government current expenditure	1,868.0	1,911.8	2,022.4	1,928.7	2,123.7	1,024.1	1,110.0
Central government	1,128.7	1,146.7	1,185.6	1,079.6	1,207.3	603.3	658.4
Social security agency	609.9	651.8	720.2	725.5	780.7	360.0	388.5
Rest of general government	129.4	113.3	116.7	123.5	135.7	60.8	63.1
Capital	288.8	266.7	272.0	313.4	388.4	215.2	265.0
Fixed investment	282.4	237.6	243.1	279.5	341.1	188.5	230.4
Transfers to private sector	6.4	29.1	28.9	34.0	47.3	26.8	34.6
Saving 1/	187.8	290.2	278.6	342.5	290.1	174.1	144.6
Overall balance (deficit -)2/	-100.9	24.5	14.4	33.6	-27.7	8.9	-70.4
Financing	100.9	-24.5	-14.4	-33.6	27.7	-8.9	70.4
External	219.0	119.0	206.4	-224.1	-481.2	-467.3	217.7
Disbursements	48.7	52.0	112.7	262.3	1,500.2	630.7	398.3
Repayments	279.1	271.0	262.6	328.7	1,277.7	520.6	165.1
Debt rescheduling	0.0	481.0	77.7	3,342.8	35.7	19.0	0.0
Arrears	449.4	-143.0	278.6	-3,422.5	-67.8	2.6	0.0
Trust fund for development	0.0	0.0	0.0	-78.0	-671.6	-599.0	-15.5
Domestic (net)	-118.1	-193.5	-220.8	117.9	-162.7	-140.6	-159.0
Of which: Banking System	-260.4	-277.8	-229.5	179.8	-160.0	-218.2	-175.7
Arrears	0.0	35.0	0.0	0.0	-35.0	-13.0	0.0
Privatization	0.0	50.0	0.0	72.6	671.6	599.0	11.7
(Annual percent change)							
Revenue	2.4	7.1	4.5	-1.3	6.3	5.3	4.7
Expenditure	13.1	1.0	5.3	-2.3	12.0	13.5	10.9
Current	10.0	2.3	5.8	-4.6	10.1	6.0	8.4
Capital	38.4	-7.7	2.0	15.2	23.9	70.7	23.1

Table 15. Panama: Operations of the Nonfinancial Public Sector (Concluded)

	1993	1994	1995	1996	Prel. 1997	Preliminary	
						Jan. - Jun. 1997	1998
(In percent of GDP 3/)							
Revenue	28.3	28.5	29.1	27.6	27.5	27.3	27.2
Grants	0.0	0.0	0.1	0.1	0.8	1.1	1.1
Expenditure	29.7	28.2	29.0	27.2	28.6	28.2	29.8
Current	25.8	24.7	25.6	23.4	24.2	23.3	24.1
Capital	4.0	3.4	3.4	3.8	4.4	4.9	5.8
Saving 1/	2.6	3.8	3.5	4.2	3.3	4.0	3.1
Overall balance (deficit-) 2/	-1.4	0.3	0.2	0.4	-0.3	0.2	-1.5
Financing (net)	1.4	-0.3	-0.2	-0.4	0.3	-0.2	1.5
External	3.0	1.5	2.6	-2.7	-5.5	-10.6	4.7
Domestic (net)	-1.6	-2.5	-2.8	1.4	-1.9	-3.2	-3.5
Privatization	0.0	0.6	0.0	0.9	7.6	13.6	0.3
External interest obligations	4.0	4.6	5.0	2.9	3.2	3.0	3.2
(In millions of balboas)							
Memorandum items:							
External interest obligations	291.0	354.0	393.0	241.6	281.6	132.0	146.5
GDP (market prices)	7,252.7	7,733.9	7,906.1	8,243.6	8,779.7	...	...
Balance in Trust Fund for Development 4/	0.0	0.0	0.0	78.0	754.1	677.0	769.6

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

1/ Revenue less current expenditure.

2/ Revenue and grants, less expenditure.

3/ Part-year percentages are annualized.

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

Table 16. Panama: Central Government Operations

	1993	1994	1995	1996	Prel. 1997	Preliminary Jan.-Jun. 1997 1998	
(In millions of balboas)							
Revenue	1,355.9	1,361.9	1,473.7	1,544.6	1,600.4	783.2	814.9
Tax revenue	862.5	916.3	990.2	984.9	1,043.5	496.0	546.5
Income tax	336.3	352.4	405.4	392.4	416.9	195.2	193.6
Wealth taxes	38.4	41.4	43.6	45.4	47.1	25.6	29.5
Taxes on foreign trade	156.6	177.7	188.3	193.6	219.0	97.1	115.7
Taxes on domestic transactions	331.2	344.8	352.9	353.5	360.5	178.1	207.7
Nontax revenue	491.4	442.7	481.6	558.2	554.3	286.6	267.8
Panama Canal	78.3	81.2	92.0	94.1	95.4	48.5	48.6
Oil pipeline royalties	3.8	3.0	3.1	0.0	0.0	0.0	0.0
Transfers from the rest of public sector	261.2	220.9	264.4	345.9	257.6	149.0	80.8
Other	148.1	137.6	122.1	118.2	201.3	89.1	138.4
Capital revenue	2.0	2.9	1.9	1.5	2.5	0.6	0.6
Grants	0.1	1.0	7.8	4.6	70.6	50.0	50.0
Expenditure	1,607.1	1,599.3	1,627.4	1,487.1	1,733.3	877.3	1,134.8
Current	1,401.7	1,427.7	1,474.0	1,327.1	1,480.5	749.3	957.6
Wages and salaries	567.8	533.0	542.9	568.5	592.4	287.4	314.7
Goods and Services	149.3	134.1	111.8	112.5	147.5	65.6	83.7
Pensions and transfers	388.8	405.6	417.2	385.7	394.1	230.4	376.7
<i>Of which:</i>							
Social security agency	209.0	212.2	216.7	170.7	194.0	107.1	259.6
Decentralized agencies	61.1	68.8	68.9	74.5	76.6	37.8	39.1
Public enterprises	2.9	0.0	2.8	2.2	2.6	1.1	0.5
Interest	290.8	350.3	394.4	251.4	299.7	142.5	156.8
Internal	24.8	24.2	25.3	28.6	32.9	18.7	16.3
External	266.0	326.1	369.1	222.8	266.8	123.8	140.5
Other current expenditure	5.0	4.8	7.7	8.9	46.9	23.3	25.7
Capital	205.4	171.6	153.4	160.1	252.8	128.0	177.2
Fixed capital formation	162.4	115.6	113.6	117.8	197.6	98.8	142.6
Transfers of capital	43.0	56.0	39.8	42.3	55.1	29.2	34.5
To decentralized agencies	18.3	7.9	10.8	6.4	2.4	1.8	0.0
To public enterprises	18.3	18.8	0.1	1.9	5.5	0.7	0.0
Other	6.4	29.3	28.9	34.0	47.2	26.8	34.5
On lending	0.0	0.0	0.0	48.0	-30.0	-30.0	0.0
Saving 1/	-45.8	-65.7	-0.3	217.6	119.9	33.8	-142.7
Overall balance (deficit-) 2/	-251.1	-236.4	-145.9	14.0	-32.3	-14.2	-269.9

Table 16. Panama: Central Government Operations (Concluded)

	1993	1994	1995	1996	Prel. 1997	Preliminary	
						Jan.-Jun. 1997	1998
(In millions of balboas)							
Financing	251.1	197.0	145.9	-14.0	32.3	14.2	269.9
External	266.0	147.0	269.8	-174.9	-431.6	-441.9	226.4
Disbursements	110.0	58.0	99.5	250.6	1,496.7	648.0	380.7
Repayments	48.0	198.0	196.0	274.6	1,224.6	493.5	142.6
Debt rescheduling	0.0	481.0	29.9	3,342.8	35.7	0.0	0.0
Arrears	204.0	-144.0	336.4	-3,415.7	-67.8	2.6	0.0
Trust Fund for Development	0.0	0.0	0.0	-78.0	-671.6	-599.0	-11.7
Domestic (net)	-14.9	0.0	-123.9	88.3	-207.7	-142.9	31.8
<i>Of which:</i> Banking system	-128.7	-12.6	-55.9	222.0	-131.4	-164.5	-94.0
Arrears	0.0	35.0	0.0	0.0	-35.0	-13.0	0.0
Privatization	0.0	50.0	0.0	72.6	671.6	599.0	11.7
(Annual percent change)							
Current revenue	6.9	0.4	8.2	4.8	3.6	3.0	4.0
Tax revenue	4.1	6.2	8.1	-0.5	5.9	1.3	10.1
Nontax revenue	12.7	-9.9	8.8	15.9	-0.7	6.2	-6.6
Total expenditure	12.8	-0.5	1.8	-8.6	16.6	22.0	29.4
Current expenditure	7.2	1.9	3.2	-10.0	11.6	14.5	27.8
Capital expenditure	74.8	-16.5	-10.6	4.4	57.9	103.0	38.4
(In percent of GDP) ^{3/}							
Current revenue	18.7	17.6	18.6	18.7	18.2	17.8	17.7
Tax revenue	11.9	11.8	12.5	11.9	11.9	11.4	11.9
Nontax revenue	6.8	5.7	6.1	6.8	6.3	6.6	5.8
Total expenditure	22.2	20.7	20.6	18.0	19.7	20.0	24.6
Current expenditure	19.3	18.5	18.6	16.1	16.9	17.1	20.8
Capital expenditure	2.8	2.2	1.9	1.9	2.9	2.9	3.8
Saving ^{1/}	-0.6	-0.9	0.0	2.6	1.3	0.8	-3.1
Overall balance (deficit -) ^{2/}	-3.5	-3.1	-1.8	0.2	-0.4	-0.3	-5.9
Financing (net)	3.5	3.1	1.8	-0.2	0.4	0.3	5.9
External	3.7	2.5	3.4	-2.1	-4.9	-10.1	4.9
Domestic	-0.2	0.0	-1.6	1.1	-2.4	-3.3	0.7
Privatization	0.0	0.6	0.0	0.9	7.6	13.6	0.3
(In millions of balboas)							
Memorandum items:							
GDP (market prices)	7,252.7	7,733.9	7,906.1	8,243.6	8,779.7	...	...
Balance in Trust Fund for Development ^{4/}	0.0	0.0	0.0	78.0	754.1	677.0	769.6

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

1/ Revenue less current expenditure.

2/ Revenue and grants, less expenditure.

3/ Part-year percentages are annualized.

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

Table 17. Panama: Central Government Revenue

	1993	1994	1995	1996	Prel. 1997	Preliminary	
						Jan.-Jun. 1997	1998
(In millions of balboas)							
Total revenue (including grants)	1,356.0	1,362.9	1,481.5	1,549.2	1,670.9	833.2	864.9
Tax revenue	862.5	916.3	990.2	984.9	1,043.5	496.0	546.5
Direct taxes	374.7	393.8	449.0	437.8	464.0	220.8	223.1
Income tax	336.3	352.4	405.4	392.4	416.9	195.2	193.6
Wealth tax	38.4	41.4	43.6	45.4	47.1	25.6	29.5
Taxes on foreign trade	156.6	177.7	188.3	193.6	219.0	97.1	115.7
Export taxes	12.0	13.6	10.7	9.4	6.2	3.2	1.7
Import taxes	144.6	164.1	177.6	184.2	212.8	93.9	114.0
Taxes on domestic transactions	331.2	344.8	352.9	353.5	360.5	178.1	207.7
Tobacco and beverages	40.1	40.8	41.4	37.1	40.2	20.7	21.4
Value added tax	134.7	143.2	147.3	154.6	163.5	78.7	89.6
Petroleum products	92.7	93.9	95.3	97.6	93.9	43.4	57.1
Stamp taxes	33.3	36.3	37.6	33.6	37.3	15.6	21.9
Other	30.4	30.6	31.2	30.7	25.6	19.7	17.4
Grants	0.1	1.0	7.8	4.6	70.6	50.0	50.0
Nontax revenue	491.4	442.7	481.6	558.2	554.3	286.6	267.8
Panama Canal	78.3	81.2	92.0	94.1	95.4	48.5	48.6
Oil pipeline royalties	3.8	3.0	3.1	0.0	0.0	0.0	0.0
Other Services	148.1	137.6	122.1	118.2	181.0	84.8	94.9
Transfers from rest of public sector	261.2	220.9	264.4	345.9	257.6	149.0	80.8
<i>Of which:</i>							
Consolidated public sector	203.1	154.7	184.7	217.2	150.4	102.2	39.3
Nonconsolidated public sector	15.6	11.6	13.6	64.3	107.2	46.9	41.5
Interest earnings and dividends	0.0	0.0	0.0	0.0	20.3	4.3	43.6
Capital revenue	2.0	2.9	1.9	1.5	2.5	0.6	0.6
(In percent of GDP 1/)							
Total revenue	18.7	17.6	18.7	18.8	19.0	19.2	18.8
Tax revenue	11.9	11.8	12.5	11.9	11.9	11.4	11.9
Direct taxes	5.2	5.1	5.7	5.3	5.2	5.1	4.8
Income tax	4.6	4.6	5.1	4.8	4.7	4.5	4.2
Wealth tax	0.5	0.5	0.6	0.6	0.5	0.6	0.6
Taxes on foreign trade	2.2	2.3	2.4	2.3	2.5	2.2	2.5
Export taxes	0.2	0.2	0.1	0.1	0.1	0.1	0.0
Import taxes	2.0	2.1	2.2	2.2	2.4	2.1	2.4
Taxes on domestic transactions	4.6	4.5	4.5	4.3	4.1	4.1	4.5
Tobacco and beverages	0.6	0.5	0.5	0.4	0.4	0.4	0.5
Value added tax	1.9	1.9	1.9	1.9	1.9	1.8	1.9
Petroleum products	1.3	1.2	1.2	1.2	1.1	1.0	1.2
Stamp taxes	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Other	0.4	0.4	0.3	0.3	0.3	0.5	0.3
Grants	0.0	0.0	0.1	0.1	0.8	1.2	1.1
Nontax revenue	6.8	5.7	6.1	6.8	6.3	6.6	5.8
Panama Canal	1.1	1.0	1.2	1.1	1.1	1.1	1.1
Oil pipeline royalties	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Services	2.0	1.8	1.5	1.4	2.1	1.9	2.1
Transfers from rest of public sector	3.6	2.9	3.3	4.2	2.9	3.4	1.8
<i>Of which:</i>							
Consolidated public sector	2.8	2.0	2.3	2.6	1.7	2.3	0.9
Nonconsolidated public sector	0.2	0.1	0.2	0.8	1.2	1.1	0.9
Interest earnings and dividends	0.0	0.0	0.0	0.0	0.2	0.1	0.9
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Part-year percentages are annualized.

Table 18. Panama: Central Government Expenditure

	1993	1994	1995	1996	Prel. 1997	Preliminary Jan.-Jun.	
						1997	1998
(In percent of GDP 1/)							
Total expenditure	22.2	20.7	20.6	18.0	19.7	20.0	24.6
Current expenditure	19.3	18.5	18.6	16.1	16.9	17.1	20.8
Wages and salaries	7.8	6.9	6.9	6.9	6.7	6.5	6.8
Goods and services	2.1	1.7	1.4	1.4	1.7	1.5	1.8
Interest	4.0	4.5	5.0	3.0	3.7	3.2	3.4
Pensions and transfers	5.4	5.2	5.3	4.7	4.5	5.2	8.2
Other	0.1	0.1	0.1	0.1	0.3	0.7	0.6
Capital expenditure	2.8	2.2	1.9	1.9	2.9	2.9	3.8
Investment	2.2	1.5	1.4	1.4	2.3	2.3	3.1
Transfers	0.6	0.7	0.5	0.5	0.6	0.6	0.7
Memorandum item:							
Noninterest expenditure	18.1	16.1	15.6	15.0	16.0	16.8	21.2
(Annual percent change)							
Total expenditure	12.8	-0.5	1.8	-8.6	16.6	22.0	29.4
Current expenditure	7.2	1.9	3.2	-10.0	11.6	14.5	27.8
Wages and salaries	18.7	-6.1	1.9	4.7	4.2	5.5	9.5
Goods and services	20.3	-10.2	-16.6	0.6	31.1	27.3	27.8
Interest	-14.4	20.5	12.6	-36.2	19.2	-12.6	10.0
Pensions and transfers	8.1	4.3	2.9	-7.5	2.2	40.8	63.5
Other	-15.3	-4.0	60.3	16.2	427.0	489.3	10.3
Capital expenditure	74.8	-16.5	-10.6	4.4	57.9	103.0	38.4
Investment	120.4	-28.8	-1.7	3.7	67.7	114.2	44.3
Transfers	-1.8	30.2	-28.9	6.3	30.3	72.6	18.2
Memorandum item:							
Noninterest expenditure	21.3	-5.1	-0.1	-3.6	16.0	32.5	33.1

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

1/ Part-year percentages are annualized.

Table 19. Panama: Operations of the Social Security Agency

	1993	1994	1995	1996	Prel. 1997	Preliminary Jan.-Jun.	
						1997	1998
(In millions of balboas)							
Current revenue	474.6	522.3	586.5	613.5	613.0	324.4	319.2
Contributions	372.0	396.3	452.6	475.0	488.8	243.4	257.6
Professional risk premium	34.2	35.0	40.5	38.5	36.8	18.0	19.1
Administered funds	22.9	18.0	29.1	24.3	11.9	8.0	2.8
Income from investment	29.8	39.0	53.8	59.5	58.5	28.0	30.4
Other	15.7	34.0	10.5	16.2	17.0	27.1	9.3
Current expenditure	609.9	651.8	720.2	725.5	780.6	360.0	388.5
Wages	125.6	134.3	143.3	151.4	156.2	75.6	79.0
Goods and services	75.0	82.2	107.3	90.6	97.5	42.9	45.3
Transfers	409.3	435.3	468.6	482.6	526.2	241.1	263.9
Domestic interest	0.0	0.0	0.9	1.0	0.7	0.4	0.3
Operating balance (deficit -)	-135.3	-129.5	-133.7	-112.1	-167.7	-35.6	-69.3
Current transfers (net)	208.6	211.7	216.7	170.7	193.5	107.1	259.4
Transfers from central government	209.0	212.2	216.7	170.7	194.0	107.1	259.6
Transfers to central government	0.4	0.5	0.0	0.0	0.5	0.0	0.2
Capital revenue	11.1	10.8	11.4	12.2	9.7	4.7	5.1
Saving 1/	84.4	93.0	94.5	70.8	35.5	76.2	195.2
Capital expenditure	11.6	7.8	20.2	37.1	24.2	13.5	12.0
Fixed investment	11.6	7.8	11.6	20.2	24.2	13.5	12.0
Financial investment	0.0	0.0	8.6	16.9	0.0	0.0	0.0
Overall balance (deficit -)	72.8	85.2	74.3	33.7	11.3	62.7	183.2
(In percent of GDP 2/)							
Current revenue	6.5	6.8	7.4	7.4	7.0	7.5	6.9
<i>Of which:</i> Contributions	5.1	5.1	5.7	5.8	5.6	5.6	5.6
Total expenditure	8.6	8.5	9.4	9.3	9.2	8.6	8.7
<i>Of which:</i> Current	8.4	8.4	9.1	8.8	8.9	8.3	8.4
Operating balance (deficit -)	-1.9	-1.7	-1.7	-1.4	-1.9	-0.8	-1.5
Current transfers (net)	2.9	2.7	2.7	2.1	2.2	2.5	5.6
Overall balance (deficit -)	1.0	1.1	0.9	0.4	0.1	1.4	4.0

Sources: Social Security Agency; Ministry of Planning and Economic Policy; and Fund staff estimates.

1/ Including capital revenue.

2/ Part-year percentages are annualized.

Table 20. Panama: Operations of the Decentralized Agencies 1/

	1993	1994	1995	1996	Prel. 1997	Preliminary Jan.-Jun.	
						1997	1998
(In millions of balboas)							
Operating revenue	58.9	55.7	59.7	58.4	57.9	31.5	32.3
Operating expenditure	129.4	113.3	116.7	123.5	135.7	60.8	63.1
Interest	6.9	7.3	6.7	6.2	6.7	2.6	1.7
Other	122.5	106.0	109.9	117.3	129.0	58.2	61.4
Operating balance (deficit -)	-70.5	-57.6	-56.9	-65.1	-77.8	-29.3	-30.9
Current transfers (net)	72.7	68.7	68.9	70.0	76.6	37.8	39.1
Transfers from central government	61.1	68.8	68.9	74.5	76.6	37.8	39.1
Transfers to central government	10.4	0.1	0.0	4.6	0.0	0.0	0.0
Transfers from public enterprises 2/	22.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers from central government	18.3	7.9	10.8	6.4	2.4	1.8	0.0
Capital revenue	2.4	3.4	2.5	1.7	10.8	0.3	9.7
Saving 3/	4.6	14.5	14.5	6.5	9.6	8.8	18.0
Capital expenditure	4.5	9.6	11.5	20.3	23.0	11.7	10.5
Fixed investment	17.1	19.6	13.6	15.6	23.0	11.7	10.5
Net lending	-12.6	-10.0	-2.1	4.7	0.0	0.0	0.0
Overall balance (deficit -)	18.4	12.8	13.8	-7.3	-11.0	-1.1	7.4
(In percent of GDP) 4/							
Operating revenue	0.8	0.7	0.8	0.7	0.7	0.7	0.7
Operating expenditure	1.8	1.5	1.5	1.5	1.5	1.4	1.4
Operating balance (deficit -)	-1.0	-0.7	-0.7	-0.8	-0.9	-0.7	-0.7
Current transfers (net)	1.0	0.9	0.9	0.8	0.9	0.9	0.8
Overall balance (deficit -)	0.3	0.2	0.2	-0.1	-0.1	0.0	0.2

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

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

2/ Transfers received to finance vocational training.

3/ Including capital revenue.

4/ Part-year percentages are annualized.

Table 21. Panama: Operations of the Public Enterprises 1/

	1993	1994	1995	1996	Prel. 1997	Preliminary	
						Jan.-Jun. 1997	1998
(In millions of balboas)							
Current revenue	714.2	754.3	749.7	740.6	637.6	369.4	260.3
Operating expenditure	378.7	385.0	408.4	447.2	397.2	226.4	171.0
Wages and salaries	150.3	149.1	169.4	174.2	122.5	71.1	50.5
Goods and services	154.5	158.7	164.2	152.3	127.7	49.0	67.1
Transfers	32.4	33.5	34.3	73.1	60.6	38.5	13.9
Other	14.9	14.7	15.6	27.8	59.1	56.1	30.0
Interest	26.6	29.0	24.9	19.6	27.3	11.7	9.5
Domestic	1.6	1.1	1.0	0.8	12.5	3.7	3.4
External	25.0	27.9	23.9	18.8	14.8	8.0	6.1
Operating balance (deficit -)	335.5	369.3	341.3	293.5	240.4	143.1	89.3
Current transfers net of taxes	-211.8	-154.1	-181.9	-210.4	-147.4	-101.1	-38.6
Transfers from central government	2.9	0.0	2.8	2.2	2.6	1.1	0.5
Transfers to central government	-192.7	-154.1	-184.7	-212.6	-149.9	-102.2	-39.1
Transfers to rest of public sector	-22.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	1.4	7.2	0.0	3.3	7.0	5.7	0.1
Capital transfers from central government	18.3	18.8	0.1	1.9	5.5	0.7	0.0
Saving 2/	125.1	222.4	159.4	86.4	100.0	47.7	50.8
Capital expenditure	103.9	104.6	97.8	104.3	96.2	64.5	65.3
Net borrowing	0.0	0.0	0.0	48.0	-30.0	-30.0	0.0
Overall balance (deficit -)	39.5	136.7	61.7	32.0	-20.7	-46.1	-14.5
(In percent of GDP 3/)							
Current revenue	9.8	9.8	9.5	9.0	7.3	8.5	5.6
Operating expenditure	5.2	5.0	5.2	5.4	4.5	5.2	3.7
Operating balance (deficit -)	4.6	4.8	4.3	3.6	2.7	3.3	1.9
Current transfers (net)	-2.9	-2.0	-2.3	-2.6	-1.7	-2.3	-0.8
Capital expenditure	1.4	1.4	1.2	1.3	1.1	1.5	1.4
Overall balance (deficit -)	0.5	1.8	0.8	0.4	-0.2	-1.1	-0.3

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

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

2/ Including capital revenue.

3/ Part-year percentages are annualized.

Table 22. Panama: Nonfinancial Public Sector Gross Domestic Debt

(In millions of balboas; end of period)

	1993	1994	1995	1996	1997	June 1998
Consolidated nonfinancial public sector	1,010.8	1,003.5	946.1	1,136.6	1,198.0	1,154.0
Loans	41.5	41.8	37.0	207.0	259.9	220.0
Securities	969.2	961.7	909.2	929.5	938.1	934.0
General government	974.2	1,019.5	964.3	1,159.4	1,180.9	1,166.1
Loans	5.0	6.3	3.6	177.4	207.2	196.6
Securities	969.2	1,013.2	960.6	982.0	973.7	969.5
Central government	1,814.6	1,794.7	1,670.7	1,792.2	1,735.6	1,836.1
Loans	32.2	31.1	25.8	196.7	223.2	210.9
Securities	1,782.4	1,763.6	1,644.9	1,595.5	1,512.4	1,625.2
<i>Of which: Short term</i>	15.6	15.6	18.5	82.1	125.0	125.0

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

Table 23. Panama: Accounts of the Banking System 1/

(In millions of balboas; end of period)

	December					June	
	1993	1994	1995	1996	1997	1997	1998
I. National Bank of Panama							
Net foreign assets	485.5	631.6	708.7	952.1	1,082.3	1,029.3	1,267.0
Assets	597.1	703.9	780.5	1,016.5	1,147.2	1,092.9	1,328.1
Reserve position with IMF	16.3	17.3	17.6	17.1	16.0	16.5	15.8
SDR holdings 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currencies	43.8	91.9	76.5	253.1	77.1	51.1	45.3
Brady bonds	0.0	0.0	0.0	150.0	0.0	0.0	0.0
Deposits abroad	537.0	594.7	686.5	596.3	1,054.2	1,025.4	1,267.0
Liabilities 3/	106.6	67.7	67.1	59.6	60.9	59.1	55.5
Deposits from nonresidents	5.0	4.7	4.7	4.7	4.1	4.5	5.7
Net domestic reserves	504.1	597.0	787.6	352.9	515.5	497.4	524.5
Domestic currency	2.2	2.6	2.2	2.2	2.2	2.3	1.6
Interbank deposits (net)	480.3	568.6	742.0	321.1	487.0	478.0	500.7
Checks in clearing	21.6	25.8	43.4	29.6	26.4	17.1	22.2
Net domestic assets	-456.6	-704.8	-924.0	-893.3	-1,151.2	-1,116.3	-1,358.2
Public sector (net)	-627.3	-843.5	-1,025.3	-853.1	-1,076.1	-1,063.2	-1,235.9
Central government (net)	473.6	479.8	433.3	609.7	399.2	430.3	301.0
Rest of public sector (net)	-1,100.9	-1,323.3	-1,458.6	-1,462.7	-1,475.2	1,493.5	-1,536.9
Of which: Social Security	-529.8	-659.8	-812.6	-865.4	-974.8	-919.8	-1,042.4
Private sector	323.0	300.9	318.8	301.0	322.4	321.0	298.5
Official capital and surplus	-159.8	-189.8	-258.6	-387.1	-436.0	-405.1	-465.6
Valuation adjustment	-19.8	-21.1	-21.5	-20.8	-19.5	-20.1	-19.3
Unclassified assets (net)	27.3	48.8	62.6	66.6	58.0	51.1	64.1
Long-term foreign liabilities	202.4	199.5	251.5	73.8	66.1	73.3	66.7
Of which:							
FIVEN	104.2	104.2	104.2	0.0	0.0	0.0	0.0
PEMEX	68.6	68.6	68.6	0.0	0.0	0.0	0.0
Other	29.5	26.7	78.7	73.8	66.1	73.3	66.7
U.S. AID facility	53.3	29.0	9.3	1.2	0.9	1.0	0.8
SDR allocation	36.1	38.4	39.1	37.8	35.5	36.5	35.0
Liabilities to the private sector	241.2	256.9	272.4	298.9	344.1	299.6	330.7
Demand deposits	49.6	60.1	63.0	67.6	95.9	60.5	71.7
Time deposits	117.6	113.4	114.6	117.7	118.4	127.5	117.0
Savings deposits	69.7	79.1	90.3	109.5	126.0	107.4	136.0
Cashier's checks in circulation	4.3	4.3	4.5	4.1	3.7	4.2	6.0
II. Private Banks							
Net foreign assets	1,398.3	1,770.8	1,734.1	1,529.5	1,770.1	1,727.2	1,289.3
Assets	3,711.7	5,697.1	4,635.6	5,230.1	5,266.5	5,579.7	3,520.7
Foreign currencies	97.1	104.1	105.3	119.7	149.5	104.8	117.4
Deposits abroad	3,212.7	4,466.1	3,505.8	3,881.8	4,490.3	3,970.6	2,803.1
Other unclassified	401.8	1,126.9	1,024.4	1,228.6	626.6	1,504.2	600.2
Liabilities	529.5	899.4	1,138.3	956.0	539.2	1,042.3	491.1
Overseas operations (net)	-1,783.8	-3,026.9	1,763.2	-2,744.7	-2,957.2	-2,810.2	-1,740.2
Credit to nonresidents	9,023.1	10,919.6	11,028.3	10,253.6	11,328.7	10,471.1	10,258.7
Deposits from nonresidents	9,447.5	11,566.1	9,992.7	9,531.1	10,612.4	10,008.1	8,311.8
Foreign banks	6,650.7	8,550.7	6,641.4	6,267.1	7,472.7	6,878.9	5,721.1
Private nonresidents	2,796.8	3,015.4	3,351.3	3,263.9	3,139.7	3,129.2	2,590.7
Other foreign liabilities	1,359.4	2,380.5	2,798.8	3,467.2	3,673.5	3,273.1	3,687.2

Table 23. Panama: Accounts of the Banking System (Continued) 1/

(In millions of U.S. dollars; end of period)

	December					June	
	1993	1994	1995	1996	1997	1997	1998
Net domestic reserves	-567.1	-684.4	-858.8	-614.3	-722.1	-861.3	-808.5
Domestic currency	7.5	14.4	16.4	10.1	14.7	10.7	8.5
Interbank deposits (net)	-574.6	-698.8	-875.1	-624.4	-736.9	-872.1	-817.0
Net domestic assets	4,118.0	4,809.1	5,498.4	5,980.3	6,925.3	6,333.0	7,804.1
Public sector (net)	104.8	74.3	62.3	79.3	151.9	53.7	156.1
Credit	104.8	74.3	62.3	79.4	152.0	53.7	156.1
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	4,332.5	5,118.6	5,852.4	6,347.6	7,237.5	6,708.2	8,120.8
Unclassified assets (net)	-319.3	-383.8	-416.3	-446.6	-464.1	-428.9	-472.8
Liabilities to private sector	4,949.2	5,895.4	6,373.7	6,895.5	7,973.3	7,198.9	8,284.9
Monetary liabilities	3,941.2	4,574.1	4,941.9	5,234.7	6,028.2	5,503.0	6,286.5
Demand deposits	645.2	728.6	737.7	758.3	889.7	733.6	845.0
Time and savings deposits	3,296.0	3,845.5	4,204.2	4,476.5	5,138.6	4,769.4	5,441.5
Time deposits	2,635.0	3,136.2	3,483.2	3,672.5	4,203.1	3,924.6	4,445.0
Savings deposits	661.0	709.2	721.0	804.0	935.5	844.9	996.5
Private capital and surplus	1,008.0	1,321.3	1,431.8	1,660.8	1,945.1	1,695.9	1,998.3
III. Savings Bank							
Net foreign assets	7.9	5.4	9.0	7.3	6.6	6.3	6.3
Net domestic reserves	13.0	60.1	118.4	145.0	161.4	165.6	176.2
Domestic currency	0.2	0.9	0.2	0.1	0.2	0.1	0.1
Deposits in local banks (net)	10.7	55.1	114.2	142.1	157.9	160.5	171.8
Demand deposits	10.4	10.6	0.6	2.2	3.8	4.5	2.8
Time deposits	45.6	78.2	127.3	165.0	188.7	187.1	181.2
Deposits of banks	-45.3	-33.7	-13.7	-25.1	-34.7	-31.1	-12.1
Checks in clearing 4/	2.2	4.1	4.1	2.8	3.3	5.0	4.3
Net domestic assets	248.3	215.8	189.0	176.7	188.1	174.7	186.0
Public sector (net)	-0.7	-31.9	-67.6	-77.1	-86.6	-96.7	-106.5
Central government	1.1	1.1	2.2	5.9	4.7	0.7	4.7
Loans and advances	1.1	1.1	2.2	5.9	4.7	0.7	4.7
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of public sector	-1.8	-32.9	-69.8	-83.0	-91.3	-97.4	-111.1
Loans and advances	0.0	0.0	0.0	0.0	-18.0	-18.0	-18.0
Deposits 5/	-1.8	-32.9	-69.8	-83.0	-73.3	-79.4	-93.1
Private sector	325.5	336.1	349.6	353.3	388.3	375.1	397.7
Loans and discounts	325.4	336.0	349.5	353.2	356.8	355.6	364.7
Investment	0.1	0.1	0.1	0.1	31.4	19.5	33.0
Unclassified assets (net)	0.0	-5.5	-4.0	-19.1	-22.9	-21.0	-12.0
Official capital and surplus	-76.6	-82.9	-89.0	-80.4	-90.7	-82.6	-93.1
Long-term foreign liabilities	10.4	10.1	9.1	8.1	8.1	8.6	7.5
Liabilities to private sector	258.4	270.9	306.4	319.9	348.0	338.1	361.1
Demand deposits	9.4	11.2	15.4	7.3	6.3	6.6	5.5
Time and savings deposits	249.0	259.7	291.0	312.5	341.7	331.5	355.6
Time deposits	103.9	99.0	111.8	113.5	132.6	120.9	132.1
Savings deposits	145.1	160.7	179.2	199.1	209.2	210.6	223.5

Table 23. Panama: Accounts of the Banking System (Concluded) 1/

(In millions of U.S. dollars; end of period)

	December					June	
	1993	1994	1995	1996	1997	1997	1998
IV. Consolidated Banking System							
Net foreign assets	1,891.7	2,407.8	2,451.9	2,488.9	2,859.0	2,762.8	2,562.6
Assets	4,316.6	6,406.4	5,425.1	6,253.8	6,420.3	6,678.9	4,855.2
Liabilities	636.1	967.0	1,205.3	1,015.6	600.0	1,101.4	546.6
Overseas operations (net)	-1,788.8	-3,031.6	-1,767.9	-2,749.3	-2,961.3	-2,814.6	-1,745.9
Credit to nonresidents	9,023.1	10,919.6	11,028.3	10,253.6	11,328.7	10,471.1	10,258.7
Deposits from nonresidents	9,452.5	11,570.7	9,997.4	9,535.8	10,616.5	10,012.6	8,317.4
Other foreign liabilities	1,359.4	2,380.5	2,798.8	3,467.2	3,673.5	3,273.1	3,687.2
Net domestic assets	3,802.0	4,259.4	4,796.9	5,142.3	5,912.4	5,187.9	6,517.3
Public sector (net)	-523.3	-801.1	-1,030.6	-850.8	-1,010.8	1,106.3	-1,186.3
Credit	1,062.6	983.4	931.0	1,139.1	1,112.4	998.4	1,105.2
Deposits	-1,585.9	-1,784.5	-1,961.7	-1,990.0	-2,123.1	-2,104.7	-2,291.5
Private sector	4,981.1	5,755.6	6,520.9	7,002.0	7,948.1	7,404.3	8,816.9
Official capital and surplus	-236.3	-272.8	-347.6	-467.5	-526.7	-487.8	-558.7
Net domestic reserves	-54.3	-31.7	42.8	-119.2	-48.9	202.6	-113.8
Domestic currency	9.9	17.9	18.8	12.5	17.1	13.1	10.2
Net interbank deposits	-83.6	-75.2	-18.9	-161.2	-92.0	-233.6	-144.4
Checks in clearing 4/	23.8	29.9	47.5	33.5	29.7	22.1	26.4
Cashier's checks in circulation	-4.3	-4.3	-4.5	-4.1	-3.7	-4.2	-6.0
Unclassified assets (net)	-311.8	-361.6	-379.2	-421.0	-448.5	-418.8	-440.0
Valuation adjustments	-19.8	-21.1	-21.5	-20.8	-19.5	-20.1	-19.3
Other assets (net)	-292.0	-340.5	-357.7	-400.2	-429.0	-398.8	-420.8
U.S. AID facility	53.3	29.0	9.3	1.2	0.9	1.0	0.8
Long-term foreign liabilities	213.1	209.9	261.6	82.9	74.2	81.8	74.3
SDR allocation	36.1	38.4	39.1	37.8	35.5	36.5	35.0
Liabilities to domestic private sector	5,444.5	6,418.9	6,948.1	7,510.2	8,661.7	7,832.3	8,970.6
Monetary liabilities	4,436.5	5,097.5	5,516.2	5,849.4	6,716.6	6,136.4	6,972.3
Demand deposits	704.2	799.9	816.1	833.2	991.9	800.6	922.3
Time and savings deposits	3,732.3	4,297.7	4,700.1	5,016.2	5,724.8	5,335.8	6,050.0
Time deposits	2,856.5	3,348.7	3,709.7	3,903.6	4,454.1	4,172.9	4,694.0
Savings deposits	875.8	949.0	990.5	1,112.6	1,270.7	1,162.9	1,356.0
Private capital and surplus	1,008.0	1,321.3	1,431.8	1,660.8	1,945.1	1,695.9	1,998.3

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

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

2/ Not included in BNP accounts, but in central government accounts.

3/ Excluding the use of Fund credit.

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

5/ Increases from 1994 reflect deposits of the Social Security Agency (CSS).

Table 24. Panama: Summary Operations of the Banking System

	December					June	
	1993	1994	1995	1996	1997	1997	1998
(In percent of GDP)							
Net domestic assets	50.6	52.6	57.5	60.3	63.0	56.3	63.5
Public sector (net)	-5.4	-8.6	-11.6	-11.4	-10.6	-12.3	-12.4
Private sector	62.5	69.4	77.6	82.0	85.1	80.3	88.0
Other	-6.4	-8.2	-8.5	-10.3	-11.6	-11.7	-12.1
Liabilities to domestic private sector	70.1	76.7	84.5	87.7	92.1	84.9	91.2
Monetary liabilities	56.9	61.6	67.1	68.9	71.6	66.7	71.1
Demand deposits	9.2	9.7	10.2	10.0	10.4	8.6	9.3
Time and savings deposits	47.7	51.9	56.9	58.9	61.2	58.1	61.8
Time deposits	36.7	40.1	44.6	46.2	47.6	45.6	48.1
Savings deposits	11.1	11.8	12.3	12.8	13.6	12.5	13.7
Private capital and surplus	13.1	15.1	17.4	18.8	20.5	18.1	20.0
(12-month change) 1/							
Net domestic assets	8.3	8.4	8.4	5.0	10.3	6.9	17.0
Public sector (net)	-5.5	-5.1	-3.6	2.6	-2.1	-0.8	-1.0
Private sector	19.0	14.2	11.9	6.9	12.6	10.1	18.0
(12-month percent change)							
Liabilities to domestic private sector	15.3	17.9	8.2	8.1	15.3	10.8	14.5
Monetary liabilities	16.0	14.9	8.2	6.0	14.8	10.0	13.6
Money	11.2	13.6	2.0	2.1	19.0	12.8	15.2
Quasi-money	17.0	15.1	9.4	6.7	14.1	9.6	13.4
Time deposits	16.1	17.2	10.8	5.2	14.1	8.7	12.5
Savings deposits	20.1	8.3	4.4	12.3	14.2	12.8	16.6

Sources: Office of the Comptroller General, National Bank of Panama, Superintendency of Banks, Savings Bank; and Fund staff estimates.

1/ In relation to liabilities to the private sector at the beginning of the period.

Table 25. Panama: Private Sector Deposits

	December					June	
	1993	1994	1995	1996	1997	1997	1998
(In millions of balboas; end of period)							
Total private sector deposits	4,436.5	5,097.5	5,516.2	5,849.4	6,716.6	6,136.4	6,972.3
Demand	704.2	799.9	816.1	833.2	991.9	800.6	922.3
National bank	49.6	60.1	63.0	67.6	95.9	60.5	71.7
Savings bank	9.4	11.2	15.4	7.3	6.3	6.6	5.5
Private banks	645.2	728.6	737.7	758.3	889.7	733.6	845.0
Time and savings	3,732.3	4,297.7	4,700.1	5,016.2	5,724.8	5,335.8	6,050.0
National bank	187.3	192.5	204.9	227.2	244.4	234.9	252.9
Savings bank	249.0	259.7	291.0	312.5	341.7	331.5	355.6
Private banks	3,296.0	3,845.5	4,204.2	4,476.5	5,138.6	4,769.4	5,441.5
Time deposits	2,856.5	3,348.7	3,709.7	3,903.6	4,454.1	4,172.9	4,694.0
National bank	117.6	113.4	114.6	117.7	118.4	127.5	117.0
Savings bank	103.9	99.0	111.8	113.5	132.6	120.9	132.1
Private banks	2,635.0	3,136.2	3,483.2	3,672.5	4,203.1	3,924.6	4,445.0
Savings deposits	875.8	949.0	990.5	1,112.6	1,270.7	1,162.9	1,356.0
National bank	69.7	79.1	90.3	109.5	126.0	107.4	136.0
Savings bank	145.1	160.7	179.2	199.1	209.2	210.6	223.5
Private banks	661.0	709.2	721.0	804.0	935.5	844.9	996.5
(12-month percent change)							
Total private sector deposits	16.0	14.9	8.2	6.0	14.8	10.0	13.6
Demand	11.2	13.6	2.0	2.1	19.0	12.8	15.2
Time and savings	17.0	15.1	9.4	6.7	14.1	9.6	13.4
Time	16.1	17.2	10.8	5.2	14.1	8.7	12.5
Savings	20.1	8.3	4.4	12.3	14.2	12.8	16.6

Sources: National Bank of Panama; Savings Bank; and Superintendency of Banks.

Table 26. Panama: Offshore Operations of Private Banks 1/

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

	December					June	
	1993	1994	1995	1996	1997	1997	1998
Foreign assets	17.4	22.9	22.7	21.6	22.9	21.6	21.8
Foreign reserves	5.4	8.4	7.0	7.3	7.7	7.7	5.8
General license banks	3.7	5.7	4.6	5.2	5.3	5.6	3.5
Offshore banks 2/	1.7	2.7	2.4	2.0	2.4	2.1	2.3
Credit to nonresidents	12.0	14.5	15.7	14.3	15.2	14.0	16.0
General license banks	9.1	11.0	11.1	10.3	11.3	10.5	10.3
Offshore banks	2.9	3.5	4.6	4.0	3.9	3.5	5.7
Foreign liabilities	15.8	20.8	20.7	19.9	20.9	19.9	20.5
Short-term liabilities	0.7	1.1	1.3	1.1	0.7	1.2	0.8
General license banks	0.5	0.9	1.1	1.0	0.5	1.0	0.5
Offshore banks	0.2	0.3	0.2	0.1	0.2	0.1	0.3
Deposits from nonresidents	13.6	17.2	16.5	15.3	16.5	15.4	15.8
General license banks	9.4	11.6	10.0	9.5	10.6	10.0	8.3
Offshore banks	4.2	5.7	6.6	5.8	5.9	5.4	7.5
Other liabilities	1.4	2.4	2.8	3.5	3.7	3.3	3.8
General license banks	1.4	2.4	2.8	3.5	3.7	3.3	3.7
Offshore banks	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Capital and reserves	0.3	0.3	0.3	0.3	0.4	0.3	0.3

Source: Superintendency of Banks.

1/ Includes offshore operations of international license banks.

2/ Refers to international license banks.

Table 27. Panama: Interest Rate Structure

(Simple average)

	1993	1994	1995	1996	1997	January-June	
						1997	1998
Lending rates (less than one year)							
Commercial	9.6	10.2	10.6	10.5	10.2	10.3	9.9
Industrial	9.3	9.8	10.1	10.1	9.3	9.8	8.9
Personal	12.5	12.5	12.6	12.2	12.6	12.0	12.6
Deposit rate (six-month) 1/	4.9	5.5	6.5	6.4	6.2	6.2	6.2
U.S. Prime rate (six-month)	6.0	7.1	8.8	8.5	8.5	8.4	8.5
LIBOR (six-month)	3.4	5.1	6.1	5.6	5.9	5.9	5.8
Difference between deposit rate and LIBOR	1.5	0.4	0.4	0.8	0.3	0.3	0.4

Sources: Superintendency of Banks; and *International Financial Statistics*.

1/ Domestic deposit rate.

Table 28. Panama: Banking System Credit to the Private Sector by Economic Activity
(End of period)

	1993	1994	1995	1996	1997	June	
						1997	1998
(In millions of balboas)							
Total	4,723	5,420	6,119	6,474	7,212	6,740	7,971
Commerce	2,086	2,394	2,671	2,568	2,896	2,668	3,309
Housing	1,183	1,334	1,493	1,649	1,844	1,737	1,977
Other construction	125	150	187	297	278	295	262
Manufacturing	263	286	367	371	415	395	450
Personal consumption	640	748	849	948	1,097	986	1,271
Financial and insurance enterprises	184	215	237	300	362	324	380
Agriculture	108	124	130	137	129	139	128
Livestock	117	144	161	155	150	148	147
Fishing	17	25	26	28	27	25	35
Other	0	0	0	21	14	23	12
(12-month percent change)							
Total	24.2	14.8	12.9	5.8	11.4	7.8	18.3
Commerce	24.5	14.8	11.6	-3.8	12.8	1.4	24.0
Housing	15.6	12.8	11.9	10.5	11.8	9.8	13.8
Other construction	22.5	20.0	24.8	58.6	-6.4	30.5	-11.2
Manufacturing	21.8	8.7	28.3	1.1	11.9	15.5	13.9
Personal consumption	43.8	16.9	13.5	11.7	15.7	14.3	28.9
Financial and insurance enterprises	46.0	16.8	10.4	26.4	20.7	14.9	17.3
Agriculture	28.6	14.8	4.6	5.6	-5.8	7.2	-7.9
Livestock	8.3	23.1	11.7	-3.6	-3.2	-8.0	-0.7
Fishing	-32.0	47.1	2.2	9.6	-3.6	-16.7	40.0
(In percent of total credit)							
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Commerce	44.2	44.2	43.6	39.7	40.2	39.6	41.5
Housing	25.0	24.6	24.4	25.5	25.6	25.8	24.8
Other construction	2.6	2.8	3.1	4.6	3.9	4.4	3.3
Manufacturing	5.6	5.3	6.0	5.7	5.8	5.9	5.6
Personal consumption	13.6	13.8	13.9	14.6	15.2	14.6	15.9
Financial and insurance enterprises	3.9	4.0	3.9	4.6	5.0	4.8	4.8
Agriculture	2.3	2.3	2.1	2.1	1.8	2.1	1.6
Livestock	2.5	2.7	2.6	2.4	2.1	2.2	1.8
Fishing	0.4	0.5	0.4	0.4	0.4	0.4	0.4

Source: Superintendency of Banks.

Table 29. Panama: Public Sector Banks--Operating Revenue and Expenditure

(In millions of balboas)

	1993	1994	1995	1996	1997	June	
						1997	1998
I. National Bank of Panama							
Operating profits or losses (-)	33.7	33.2	59.9	57.7	44.8	23.8	18.2
Operating revenue	62.0	62.4	89.1	88.1	76.7	38.9	33.8
Net interest	52.6	51.6	78.1	77.7	65.3	33.7	29.3
Interest receipts (cash)	89.6	98.5	139.3	142.4	144.2	70.1	69.4
Accrued	91.1	104.5	143.5	143.7	148.5	66.4	82.6
Not yet collected 1/	-1.5	-6.0	-4.2	-1.3	-4.4	3.6	-13.2
Interest payments accrued	-37.0	-46.9	-61.2	-64.7	-78.9	-36.4	-40.2
Noninterest income 2/	9.4	10.8	11.1	10.3	11.4	5.3	4.5
Operating expenditure	28.3	29.2	29.2	30.4	32.0	15.2	15.6
Wages and salaries	19.3	19.2	19.1	19.6	20.4	10.0	10.0
Goods and services	8.2	8.4	8.7	10.2	11.0	4.9	5.4
Other 3/	0.8	1.6	1.3	0.6	0.6	0.2	0.1
II. Savings Bank							
Operating profits or losses (-)	4.4	4.0	1.5	4.6	3.3	0.4	2.4
Operating revenue	17.9	18.3	18.3	22.1	21.9	10.8	11.6
Net interest	10.9	12.9	13.9	16.3	16.9	8.5	9.5
Interest receipts (cash)	28.0	31.2	37.7	43.4	47.9	23.3	25.3
Accrued	35.2	38.7	44.4	45.7	50.3	24.5	26.4
Loans	32.6	35.7	36.5	36.3	36.2	18.3	18.4
Fixed deposits	2.5	3.0	7.8	9.3	12.3	5.6	6.5
Investments	0.0	0.1	0.1	0.1	1.8	0.5	1.5
Not yet collected	-7.2	-7.5	-6.7	-2.4	-2.3	-1.2	-1.2
Interest payments accrued	-17.1	-18.3	-23.8	-27.1	-31.1	-14.8	-15.7
Noninterest income	7.0	5.4	4.4	5.8	5.1	2.3	2.1
Operating expenditure (cash)	13.5	14.3	16.8	17.5	18.6	10.3	9.2
Expenditure	15.1	15.9	20.6	21.0	20.7	10.0	10.4
<i>Of which:</i>							
Depreciation	-1.0	-1.4	-1.5	-1.5	-1.4	0.7	-0.7
Provisions for bad loans	-0.6	-0.2	-2.3	-2.0	-0.7	-0.4	-0.5

Table 29. Panama: Public Sector Banks--Operating Revenue and Expenditure (Concluded)

(In millions of balboas)

	1993	1994	1995	1996	1997	June	
						1997	1998
III. National Mortgage Bank							
Operating profits or losses (-)	5.7	9.0	5.4	4.2	3.2	-0.9	1.1
Operating revenue	12.6	16.4	13.0	14.2	13.8	3.9	6.4
Net interest	6.8	6.6	7.1	7.9	7.9	1.9	3.7
Interest receipts (cash)	14.7	14.9	15.1	15.6	14.8	5.4	7.2
Loans	13.8	13.3	13.5	14.3	13.8	4.9	6.8
Fixed deposits	0.8	1.0	1.2	0.9	0.9	0.4	0.4
Investments	0.1	0.6	0.4	0.3	0.1	0.0	0.0
Interest payments (cash)	7.9	8.3	8.0	7.7	6.8	3.5	3.5
Noninterest income	5.8	9.8	5.9	6.3	5.9	2.0	2.8
Operating expenditure (cash)	6.9	7.3	7.6	9.9	10.6	4.8	5.4
Wages and salaries	2.6	2.9	3.4	3.4	3.9	1.8	1.8
Goods and services	4.3	4.5	4.2	6.6	6.7	3.0	3.5
IV. Agricultural Development Bank							
Operating profits or losses (-)	-1.2	-2.5	-3.3	-3.0	-3.8	-2.0	-1.9
Operating revenue	4.8	3.2	2.8	2.1	1.4	0.5	0.6
Net interest	4.3	2.9	2.5	1.8	0.7	0.3	0.3
Interest receipts (cash)	8.6	7.9	6.7	5.9	4.8	2.4	2.2
Interest payments accrued	4.3	4.9	4.2	4.1	4.1	2.1	1.9
Interest payments (cash)	4.3	4.6	3.9	3.8	3.6	1.8	1.6
Noninterest income	0.6	0.3	0.3	0.3	0.7	0.2	0.3
Operating expenditure (cash)	6.0	5.7	6.1	5.1	5.2	2.5	2.5
Wages and salaries	4.2	4.1	4.5	3.6	3.7	1.8	1.8
Goods and services	1.0	0.9	0.9	0.9	0.9	0.4	0.4
Other	0.8	0.7	0.7	0.6	0.6	0.3	0.3

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

1/ Difference of interest receivable at the beginning and at the end of the period.

2/ In 1993 excludes B 12.7 million of reversion of reserves for bad loans.

3/ Includes exchange losses of B 0.4 million in 1993, B 1.2 million in 1994, and B 0.9 million in 1995 on repayments, and exchange profit of B 0.5 million in 1996.

Table 30. Panama: Public Sector Banks--Portfolio in Arrears
(In millions of balboas at end-year)

	1993	1994	1995	1996	1997	June	
						1997	1998
I. National Bank of Panama							
Total private sector portfolio 1/	269.5	262.2	276.9	268.6	260.6	258.4	256.8
Commerce	44.5	39.7	39.1	36.8	43.4	37.1	42.7
Agriculture and forestry	69.1	76.6	78.0	79.6	81.7	78.8	79.4
Personal loans	105.5	91.5	99.5	92.6	75.9	85.0	72.9
Others	50.3	54.4	60.2	59.6	59.6	57.5	61.9
Loans overdue	17.6	12.7	10.7	11.5	11.1	11.1	11.3
Commerce	8.3	6.2	4.3	4.1	3.3	3.8	2.8
Agriculture and forestry	4.9	3.5	3.7	4.4	4.7	4.2	4.8
Personal loans	0.8	0.8	1.0	0.9	1.1	1.5	1.4
Others	3.6	2.1	1.7	2.1	2.0	1.6	2.2
Loans overdue	17.6	12.7	10.7	11.5	11.1	11.1	11.3
Between 30 and 90 days	4.8	4.6	3.8	5.1	4.8	4.5	5.3
Over 90 days	12.8	8.1	6.9	6.4	6.4	6.6	5.9
Loans overdue (in percent)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Between 30 and 90 days	27.3	36.2	35.2	44.6	42.8	40.8	47.4
Over 90 days	72.7	63.8	64.8	55.4	57.2	59.2	52.6
Share of arrears in total portfolio (in percent)	6.5	4.8	3.9	4.3	4.3	4.3	4.4
Commerce	18.6	15.6	10.9	11.1	7.6	10.3	6.5
Agriculture and forestry	7.1	4.6	4.8	5.5	5.8	5.4	6.1
Personal loans	0.8	0.9	1.0	1.0	1.5	1.7	2.0
Others	7.2	3.9	2.8	3.6	3.4	2.8	3.6
II. Savings Bank							
Total portfolio	313.6	324.6	336.9	351.8	355.0	355.5	364.7
Mortgages	233.0	252.1	265.4	275.1	285.8	281.4	288.5
Personal loans	72.2	61.4	60.2	62.1	55.0	58.6	60.1
Other	8.4	11.0	11.4	14.6	14.2	15.5	16.1
Loans overdue	69.3	68.5	61.6	53.2	54.6	55.3	57.7
Mortgages	62.9	58.6	49.8	44.3	44.0	44.2	45.8
Personal loans	5.2	8.1	11.1	6.4	8.2	8.5	8.5
Other	1.2	1.8	0.7	2.5	2.4	2.6	3.4
Loans overdue 2/	69.3	68.5	61.6	53.2	54.6	55.3	57.7
Between two and nine months	32.5	31.5	29.5	...	...	...	...
More than nine months	36.9	37.1	32.2	...	...	...	...
Loans overdue (in percent)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Between two and nine months	46.8	45.9	47.8	...	...	...	...
More than nine months	53.2	54.1	52.2	...	...	...	...
Share of arrears in total portfolio (in percent)	22.1	21.1	18.3	15.1	15.4	15.6	15.8
Mortgages	27.0	23.2	18.8	16.1	15.4	15.7	15.9
Personal loans	7.2	13.2	18.5	10.3	14.9	14.5	14.1
Other	14.7	16.4	6.0	17.1	16.9	16.8	21.1

Table 30. Panama: Public Sector Banks--Portfolio in Arrears (Concluded)

(In millions of balboas at end-year)

	1993	1994	1995	1996	1997	June	
						1997	1998
III. National Mortgage Bank 3/							
Total portfolio	153.8	166.6	174.4	188.5	195.4	192.6	198.6
Total arrears	34.8	38.5	42.2	45.6	8.1	43.2	11.9
Share of arrears in total portfolio (in percent)	22.7	23.1	24.2	24.2	4.1	22.4	6.0
IV. Agricultural Development Bank 4/							
Total portfolio	89.9	81.4	76.6	74.2	76.1	72.9	79.7
Loans overdue	10.0	21.6	20.4	20.7	19.9	23.0	21.5
Between 30 and 90 days	1.3	3.3	0.7	1.0	1.1	2.5	1.6
More than 90 days	8.7	18.3	19.7	19.7	18.8	20.5	19.9
Loans overdue (in percent)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Between 30 and 90 days	13.3	15.5	3.4	4.9	5.5	10.9	7.3
More than 90 days	86.7	84.5	96.6	95.1	94.5	89.1	92.7
Share of arrears in total portfolio (in percent)	11.2	26.5	26.7	27.9	26.1	31.5	27.0

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

1/ Central government overdrafts of B 932 million accumulated during the crisis of the late 1980s were regularized in 1993, and no public sector arrears remain.

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

3/ The portfolio includes bad loans related to projects, financed through the Ministry of Housing, aimed at solving social problems.

4/ From 1993 onward, the portfolio excludes bad loans.

Table 31. Panama: Balance of Payments 1/

	1993			1994			1995			1996			1997		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
	(In millions of U.S. dollars)														
Current account	7,917.8	8,074.2	-156.4	8,778.3	8,808.6	-30.3	9,352.0	9,621.3	-269.3	8,710.6	8,842.9	-132.3	9,826.4	10,990.7	-264.3
Goods and services	7,723.3	8,040.8	-317.5	8,592.8	8,772.0	-179.2	9,167.8	9,591.4	-423.5	8,527.0	8,812.7	-285.7	9,633.6	10,060.5	-426.8
Commodity trade	5,413.6	5,747.0	-333.4	6,040.1	6,288.6	-248.6	6,100.1	6,669.3	-569.2	5,723.9	6,234.5	-510.6	6,675.2	7,268.7	-593.4
Nonpetroleum exports (f.o.b.)	5,311.5	0.0	5,311.5	5,932.6	0.0	5,932.6	5,954.4	0.0	5,954.4	5,556.5	0.0	5,556.5	6,501.4	0.0	6,501.4
Petroleum trade (f.o.b.)	102.1	266.0	-163.9	107.4	299.1	-191.7	145.8	303.5	-157.7	167.4	394.9	-227.5	173.8	371.9	-198.1
Nonpetroleum imports (f.o.b.)	0.0	5,481.0	-5,481.0	0.0	5,989.5	-5,989.5	0.0	6,365.8	-6,365.8	0.0	5,925.2	-5,925.2	0.0	6,896.8	-6,896.8
Freight and insurance	28.2	636.3	-608.1	27.6	710.3	-682.7	26.3	709.7	-683.5	15.0	646.2	-631.2	15.2	748.3	-733.2
<i>Of which: ZLC</i>	0.0	424.9	-424.9	0.0	475.1	-475.1	0.0	475.0	-475.0	0.0	407.8	-407.8	0.0	482.4	-482.4
Transportation	603.7	63.6	540.1	667.1	70.8	596.3	728.8	76.5	652.3	740.4	107.7	632.7	767.7	76.7	690.9
Travel	225.7	122.5	103.2	261.6	122.2	139.4	310.4	127.5	182.9	343.1	135.8	207.3	374.2	137.4	236.8
Investment income	947.4	1,318.7	-371.3	1,082.1	1,417.5	-335.4	1,488.1	1,830.9	-342.8	1,219.7	1,519.2	-299.5	1,317.0	1,647.1	-330.2
<i>Of which:</i>															
Interest on public debt	0.0	291.1	-291.1	0.0	354.0	-354.0	0.0	393.2	-393.2	0.0	243.3	-243.3	0.0	286.3	-286.3
ZLC	6.1	57.5	-51.4	6.3	115.2	-108.8	19.3	78.0	-58.6	13.9	94.3	-80.4	16.4	111.6	-95.2
Government n.i.e.	19.3	34.6	-15.2	20.3	34.7	-14.4	20.8	39.5	-18.7	21.3	45.0	-23.7	21.6	46.5	-24.9
Other services	485.4	118.1	367.2	494.0	127.9	366.1	493.3	137.8	355.5	463.6	124.3	339.3	455.5	128.5	327.0
<i>Of which: ZLC</i>	31.8	24.9	6.9	31.2	45.2	-14.0	32.6	42.1	-9.5	32.0	38.2	-6.2	33.0	39.8	-6.8
Unrequited transfers	194.5	33.4	161.1	185.5	36.6	148.9	184.1	29.9	154.2	183.6	30.2	153.4	192.8	30.2	162.6
Private transfers	16.7	23.7	-7.1	17.1	24.8	-7.7	16.3	20.4	-4.1	15.8	20.0	-4.2	16.6	20.0	-3.4
Official transfers	177.8	9.7	168.1	168.5	11.8	156.6	167.8	9.5	158.3	167.8	10.2	157.6	176.2	10.2	166.0
Capital account 2/	3,178.8	3,502.4	-323.6	3,749.8	4,181.9	-432.0	1,345.0	1,169.5	175.4	698.9	377.6	321.3	4,215.9	4,040.2	175.7
Official capital	76.7	272.2	-195.5	38.3	269.1	-230.8	155.0	223.7	-68.7	186.4	354.8	-168.4	1,511.2	1,847.4	-336.2
Grants	42.0	0.0	42.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	70.6	0.0	70.6
Nonfinancial public sector	34.7	272.2	-237.5	38.3	269.1	-230.8	99.7	223.7	-124.0	186.4	354.8	-168.4	-1,440.6	1,847.4	-406.8
Medium and long term	34.7	259.1	-224.4	38.3	257.0	-218.7	99.7	211.1	-111.4	186.4	342.0	-155.6	1,426.9	1,847.4	-420.5
Released collateral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.7	0.0	13.7
Venezuela oil loan	0.0	12.7	-12.7	0.0	11.7	-11.7	0.0	12.6	-12.6	0.0	12.4	-12.4	0.0	0.0	0.0
Mexico oil loan	0.0	0.4	-0.4	0.0	0.4	-0.4	0.0	0.0	0.0	0.0	0.4	-0.4	0.0	0.0	0.0
Official bank (other long term)	0.0	0.0	0.0	0.0	0.0	0.0	55.3	0.0	55.3	0.0	0.0	0.0	0.0	0.0	0.0

Table 31. Panama: Balance of Payments (Concluded) 1/

	1993			1994			1995			1996			1997		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
(In millions of U.S. dollars)															
Private capital	3,102.1	3,230.2	-128.1	3,711.5	3,912.8	-201.2	1,190.0	945.8	244.1	512.5	22.8	489.7	2,704.7	2,192.8	511.9
Direct investment	140.8	61.8	79.0	167.4	0.0	167.4	192.4	0.0	192.4	275.1	0.0	275.1	848.4	0.0	848.4
Private borrowing	41.0	40.2	0.8	32.0	30.9	1.2	44.8	26.0	18.7	57.2	0.0	57.2	1,645.1	0.0	1,645.1
Commercial banks foreign position	2,920.3	3,128.2	-207.9	3,512.1	3,881.9	-369.8	952.8	919.8	33.0	180.2	22.8	157.4	211.2	2,192.8	-1,981.6
Errors and omissions	...	...	237.6	...	...	364.2	...	...	-159.3	...	...	210.8	...	...	231.2
Overall balance	...	...	-242.4	...	...	-98.2	...	...	-253.2	...	...	399.8	...	...	142.6
Financing	357.2	114.8	242.4	494.5	396.4	98.2	369.2	116.0	253.2	3,418.7	3,818.4	-399.8	81.5	224.1	-142.6
Reserves	14.0	114.8	-100.8	14.0	147.3	-133.2	12.9	116.0	-103.1	75.9	295.3	-219.5	45.8	156.3	111.0
Net foreign assets of the National Bank of Panama	0.0	107.9	-107.9	0.0	146.1	-146.1	0.0	77.1	-77.1	0.0	243.4	-243.4	0.0	130.2	-130.2
Net use of Fund credit	14.0	6.9	7.1	14.0	1.2	12.9	12.9	38.9	-26.0	75.9	51.9	24.0	45.8	26.1	19.7
Rescheduling	0.0	0.0	0.0	480.5	0.0	480.5	77.7	0.0	77.7	3,342.8	0.0	3,342.8	35.7	0.0	35.7
Arrears	343.2	0.0	343.2	0.0	249.1	-249.1	278.6	0.0	278.6	0.0	3,523.1	-3,523.1	0.0	67.8	-67.8
Memorandum items:															
Colon Free Zone															
Commodity trade	4,776.9	4,060.7	716.3	5,367.6	4,436.0	931.7	5,357.2	4,689.5	667.7	4,962.5	4,158.3	804.2	5,870.6	4,919.3	951.4
Services	37.9	507.3	-469.4	37.5	635.4	-597.9	51.9	595.1	-543.1	45.9	540.3	-494.4	49.4	633.8	-584.3
Commodity trade without ZLC	636.7	1,686.3	-1,049.6	672.4	1,852.7	-1,180.3	742.9	1,979.9	-1,237.0	761.4	2,076.2	-1,314.8	804.5	2,349.3	-1,544.7
Services without ZLC	1,324.4	467.8	856.6	1,433.1	430.4	1,002.7	1,527.7	496.0	1,031.7	1,537.5	486.7	1,050.8	2,909.0	2,158.0	751.0
Income and other services of:															
General license banks	570.4	489.7	80.6	752.7	602.6	150.1	998.5	857.1	141.4	807.1	725.2	81.9	894.3	866.7	27.6
International license banks	391.8	406.1	-14.3	355.6	324.2	31.4	511.2	469.1	42.0	446.0	411.7	34.3	444.5	436.6	7.9
Current account without ZLC	3,103.0	3,506.2	-403.2	3,373.2	3,737.3	-364.1	3,942.8	4,336.7	-393.9	3,702.2	4,112.3	-410.1	3,906.4	4,537.6	-631.3
Current account without ZLC and banks	2,140.9	2,610.4	-469.6	2,264.9	2,810.5	-545.6	2,433.2	3,010.5	-577.3	2,449.1	2,975.4	-526.3	2,567.6	3,234.3	-666.7

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

1/ The data reflect the residence of enterprises based on the recommendations of the *System of National Accounts 1993*, and the *Balance of Payments Manual*, fifth edition, especially for the transactions of the enterprises operating in the Colon Free Zone (ZLC) and the international license banks.

2/ Excluding errors and omissions.

Table 32. Panama: Summary Balance of Payments

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

	1993	1994	1995	1996	1997
Current account balance	-156.4	-30.3	-269.3	-132.3	-264.3
Trade balance	-333.4	-248.6	-569.2	-510.6	-593.4
Exports	636.7	672.4	742.9	761.4	804.5
Non-oil exports	534.6	565.0	597.1	594.0	630.7
Petroleum exports	102.1	107.4	145.8	167.4	173.8
Imports	-1,686.3	-1,852.7	-1,979.9	-2,076.2	-2,349.3
Petroleum imports	-266.0	-299.1	-303.5	-394.9	-371.9
Non-oil imports	-1,420.3	-1,553.6	-1,676.4	-1,681.3	-1,977.4
Colon Free Zone, net	716.3	931.7	667.7	804.2	951.4
Service balance	15.9	69.3	145.7	224.9	166.6
Freight and insurance	-608.1	-682.7	-683.5	-631.2	-733.2
<i>Of which: Colon Free Zone</i>	-424.9	-475.1	-475.0	-407.8	-482.4
Transportation	540.1	596.3	652.3	632.7	690.9
Travel	103.2	139.4	182.9	207.3	236.8
Investment income	-371.3	-335.4	-342.8	-299.5	-330.1
<i>Of which: public sector</i>	-291.1	-354.0	-393.2	-243.3	-286.2
Other services	352.0	351.7	336.8	315.6	302.1
Transfers (net)	161.1	148.9	154.2	153.4	162.6
<i>Of which: Official transfers (net)</i>	168.1	156.6	158.3	157.6	166.0
Capital account balance	-85.9	-67.9	16.1	532.1	406.9
Public sector (net)	-195.5	-230.8	-68.7	-168.4	-336.2
Grants	42.0	0.0	0.0	0.0	70.6
Nonfinancial public sector	-237.5	-230.8	-124.0	-168.4	-406.8
Drawings	34.7	38.3	99.7	186.4	1,440.6
Amortization	-259.1	-257.0	-211.0	-171.3	-1,201.4
Other	-13.1	-12.1	-12.6	-183.5	-646.0
National Bank of Panama	0.0	0.0	55.3	0.0	0.0
Private capital 1/	109.6	162.9	84.7	700.5	743.1
Overall balance	-242.4	-98.2	-253.2	399.8	142.6
Financing	242.4	98.2	253.2	-399.8	-142.6
Net foreign assets of the National Bank of Panama (increase -)	-107.9	-146.1	-77.1	-243.4	-130.2
Net use of Fund credit	7.1	12.9	-26.0	24.0	19.7
Rescheduling	0.0	480.5	77.7	3,342.8	35.7
Arrears (net)	343.2	-249.1	278.6	-3,523.1	-67.8
Memorandum item:					
Current account (in percent of GDP)	-2.2	-0.4	-3.4	-1.6	-3.0

Sources: Panamanian authorities; and Fund staff estimates.

1/ Includes errors and omissions

Table 33. Panama: Composition of Merchandise Exports

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

	1993	1994	1995	1996	1997
Merchandise exports, f.o.b. 1/	636.7	672.4	742.9	761.4	804.5
Petroleum	102.1	107.4	145.8	167.4	173.8
Nonpetroleum exports, f.o.b. 2/	506.8	539.8	577.2	566.4	658.0
Bananas					
Value	201.2	206.6	190.4	184.0	179.8
Volume (millions of boxes)	38.2	41.1	38.1	34.8	33.5
Unit value per box	5.3	5.0	5.0	5.3	5.4
Sugar					
Value	21.8	17.1	18.0	22.6	28.7
Volume (thousands of metric tons)	62.8	54.8	44.2	46.6	62.4
Unit value per pound	0.2	0.2	0.2	0.2	0.2
Shrimp					
Value	57.0	69.5	82.8	74.6	95.7
Volume (thousands of metric tons)	7.6	7.9	10.4	11.0	12.6
Unit value per pound	3.4	4.0	3.5	3.1	3.4
Coffee					
Value	11.6	14.0	33.4	18.8	22.4
Volume (thousands of metric tons)	7.9	5.3	10.5	8.4	7.5
Unit value per pound	0.7	1.2	1.4	1.0	1.4
Fishmeal					
Value	4.5	5.1	5.0	2.2	4.5
Volume (thousands of metric tons)	15.7	19.1	20.5	7.1	11.1
Unit value per pound	0.1	0.1	0.1	0.1	0.2
Other seafood					
Value	18.5	18.4	19.5	22.1	36.4
Volume (thousands of metric tons)	6.3	6.2	5.4	7.2	13.4
Unit value per pound	1.3	1.4	1.7	1.4	1.2
Clothing					
Value	21.4	20.5	22.2	20.1	24.1
Volume (metric tons)	0.7	0.6	0.6	0.6	0.7
Unit value per pound	32.6	34.4	36.2	33.5	34.4
Other exports					
Value	171.7	188.6	205.9	222.0	266.4
Balance of payments adjustments for cover	-9.0	-12.4	-22.8	-5.6	-67.0
Re-exports	35.9	37.6	42.7	33.2	39.7

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

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

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

Table 34. Panama: Petroleum Trade

(In millions of U.S. dollars; volumes in millions of barrels;
and unit values in U.S. dollars per barrel)

	1993	1994	1995	1996	1997
Net imports	163.9	191.7	157.7	227.5	198.1
Total imports, f.o.b.	266.0	299.1	303.5	394.9	371.9
Crude oil					
Value	182.1	118.8	135.0	289.0	262.2
From: Ecuador	77.0	95.3	116.6	95.8	162.0
Venezuela	20.7	14.9	18.4	147.0	49.2
Mexico	12.5	0.0	0.0	0.0	17.6
Other	71.9	8.6	0.0	46.2	33.4
Volume	12.4	8.5	8.8	14.7	15.0
Unit value	14.7	14.0	15.4	20.5	17.5
Refined products	83.9	180.3	168.5	105.9	109.7
Refinery	64.2	180.3	168.5	105.9	109.7
Other	19.7	0.0	0.0	0.0	0.0
Total exports, f.o.b.	102.1	107.4	145.8	167.4	173.8
To other countries	9.6	10.5	8.7	20.5	22.3
Bunker oil for ships	76.2	63.0	81.7	122.0	120.9
Fuel for aircraft	16.3	33.9	55.4	24.9	30.6

Sources: Office of the Comptroller General; and Ministry of Commerce and Industry.

Table 35. Panama: Nontraditional Exports and
Issue of Tax Credit Certificates

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Nontraditional exports, f.o.b. 1/	77.8	82.2	100.8	129.5	125.6
Food	25.4	1.0	3.1	2.8	11.9
Other agricultural products	17.0	23.8	35.4	46.2	51.3
Beverages and tobacco	7.6	9.8	8.2	10.3	9.7
Metals	0.3	0.0	0.0	0.0	0.0
Manufactures	27.5	47.6	54.2	70.2	52.7
Issues of tax credit certificates	12.3	12.6	13.8	19.1	18.8
Food	4.2	0.1	0.3	0.3	2.2
Other agricultural products	3.6	5.4	5.2	8.5	7.9
Beverages and tobacco	1.2	2.3	1.0	1.5	1.5
Manufactures	3.2	4.8	7.3	8.8	7.2
Ratio of tax credit certificates to nontraditional exports	15.8	15.3	13.7	14.8	14.9

Source: Panama Trade Development Institute (IPCE).

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

Table 36. Panama: Composition of Merchandise Imports, c.i.f.

(Value in millions of U.S. dollars; indices: 1988 = 100)

	1993	1994	1995	1996	1997
Food					
Value	195.3	211.9	230.8	267.0	269.9
Volume index	291.4	315.4	346.9	385.1	381.2
Unit value index	72.1	72.1	71.4	74.8	76.3
Capital goods					
Value	514.5	541.9	582.7	679.6	762.9
Volume index	352.4	379.8	373.0	427.1	488.8
Unit value index	108.9	106.6	116.7	119.2	116.5
Petroleum					
Value	192.0	125.5	144.0	301.7	262.1
Volume index	182.5	126.1	129.7	216.7	221.1
Unit value index	122.2	122.2	136.9	182.2	155.6
Other consumer goods					
Value	1,293.4	1,522.8	1,553.2	1,531.5	1,697.4
Volume index	233.6	405.9	386.9	386.5	423.3
Unit value index	112.1	75.8	81.1	82.2	83.2
Total value	2,195.2	2,402.1	2,510.7	2,779.8	2,992.3

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

Table 37. Panama: Direction of Trade 1/

(In percent)

	1993	1994	1995	1996	1997
Exports, f.o.b.	100.0	100.0	100.0	100.0	100.0
Western Hemisphere	55.4	61.0	66.3	72.8	72.9
United States	34.3	37.8	41.9	47.4	46.2
Central America and the Caribbean	17.9	19.2	19.6	19.3	20.8
South America	2.1	2.7	3.7	4.1	3.9
Other	1.1	1.3	7.4	3.1	5.0
Europe	38.1	33.9	30.7	23.0	22.3
Belgium and Luxembourg	5.5	7.0	4.8	4.2	5.3
Germany	14.3	12.8	12.6	4.5	3.0
Italy	5.5	1.8	1.1	1.0	0.7
Sweden	9.7	9.0	4.8	10.2	8.3
Other	3.1	3.3	7.4	3.1	5.0
Other countries	5.4	3.8	1.9	2.2	3.6
<i>Of which: exports through the</i>					
Colon Free Zone	1.1	1.3	1.1	2.0	2.0
Imports, c.i.f. 2/	100.0	100.0	100.0	100.0	100.0
Western Hemisphere	60.0	60.9	63.7	65.7	64.0
United States	36.9	38.0	39.4	37.4	36.9
Mexico	2.8	2.0	3.3	3.8	4.9
Central America and the Caribbean	9.3	9.1	7.6	7.1	7.2
Costa Rica	2.8	2.8	2.9	2.7	2.9
Trinidad and Tobago	0.8	0.7	0.4	0.3	0.7
Other	5.7	5.6	4.3	4.1	3.5
South America	11.0	11.8	13.4	17.4	15.0
Venezuela	1.7	2.2	3.2	7.2	4.0
Ecuador	3.8	4.4	5.3	3.7	5.6
Brazil	1.5	1.7	1.4	1.1	1.0
Other	4.0	3.5	3.5	5.4	4.4
Europe	9.0	9.6	8.8	8.3	8.6
Germany	1.9	1.8	1.9	1.7	1.3
France	0.8	0.6	0.6	0.5	1.5
Spain	1.0	1.0	1.2	1.0	1.3
Italy	0.8	1.4	0.9	0.8	0.7
Netherlands	0.4	1.8	1.3	0.9	0.6
United Kingdom	0.7	0.6	0.6	0.6	0.9
Other	3.4	2.4	2.3	2.8	2.3
Other countries	31.0	29.5	27.5	26.0	27.4
<i>Of which: imports from the</i>					
Colon Free Zone	16.5	15.3	14.3	13.6	13.3

Source: Office of the Comptroller General.

1/ Based on Customs data.

2/ Excludes sales of bunker oil.

Table 38. Panama: Net Services Receipts

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Total service receipts (net)	15.9	69.3	145.7	224.9	166.6
Investment income	-371.3	-335.4	-342.8	-299.5	-330.1
<i>Of which:</i>					
Interest on the public debt	-291.1	-354.0	-393.2	-243.3	-286.2
Colon Free Zone	-51.4	-108.8	-58.6	-80.4	-95.1
Freight and insurance	-608.1	-682.7	-683.5	-631.2	-733.2
Transshipment of oil	25.3	23.5	22.0	10.9	22.3
Colon Free Zone	-424.9	-475.1	-475.0	-407.8	-482.4
Other	-108.5	-231.0	-230.5	-234.3	-273.1
Travel	103.2	139.4	182.9	207.3	236.8
Transportation 1/	540.1	596.3	652.3	632.7	690.9
Canal receipts	400.9	419.2	462.8	486.7	493.7
Other	139.2	177.1	189.6	142	197.2
Government	-15.2	-14.4	-18.7	-23.7	-24.9
Other services (net)	367.2	366.1	355.5	339.3	327.0
Memorandum item:					
Nonfactor services	387.2	404.7	488.5	524.4	496.8

Source: Office of the Accountant General.

1/ Excludes sales of bunker oil and aviation fuel.

Table 39. Panama: Operations of the Colon Free Zone

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997
Imports 1/	4,495.8	4,923.2	5,160.5	4,623.5	5,389.6
Textiles and clothing	1,200.1	1,310.7	1,255.2	973.0	1,200.0
Beverages and tobacco	122.7	120.7	119.7	176.1	207.8
Chemical products	417.1	413.1	448.7	496.1	577.7
Instruments	614.5	616.9	416.2	317.6	340.9
Machinery and transport goods	1,231.8	1,457.2	1,783.7	1,502.4	1,654.8
Other	915.9	1,008.8	1,137.0	1,158.5	1,408.4
Exports, f.o.b. 1/	5,149.9	5,748.1	5,731.3	5,491.8	6,276.0
Textiles and clothing	1,327.8	1,478.7	1,339.4	1,177.2	1,384.2
Beverages and tobacco	151.1	143.1	142.2	183.1	218.0
Chemical products	563.2	595.4	644.7	675.6	770.5
Instruments	685.1	735.3	457.7	388.2	373.8
Machinery and transport goods	1,419.5	1,666.5	1,896.3	1,803.4	1,960.2
Other	1,010.4	1,137.7	1,251.1	1,264.2	1,569.3
Memorandum item:					
Number of Panamanians employed in Colon Free Zone 2/	12,147	12,674	13,421	12,152	13,639

Sources: Office of the Comptroller General; and Administration of the Colon Free Zone.

1/ Excludes balance of payments adjustments.

2/ Average for the year.

Table 40. Panama: Canal Statistics

Fiscal year Ended Sep. 30	Total Traffic				Traffic Assessed Toll on Net Tonnage Basis 1/		
	Number of Transits (In thousands)	Tolls (In millions of US\$)	Cargo Tonnage (In millions of long tons)	Average Toll (US\$ per long ton)	Number of Transits (In thousands)	Net Tonnage 2/ (In millions of p.c. net tons)	Average Tonnage per transit (In thousands of p.c. net tons)
Total traffic							
1993	13.7	400.8	158.0	2.5	13.4	187.4	14.0
1994	14.0	419.2	170.8	2.5	13.7	195.2	14.2
1995	15.1	462.8	190.4	2.4	14.8	216.3	14.7
1996	15.2	486.7	198.5	2.6	14.9	228.3	15.3
1997	14.7	493.7	189.9	2.6	14.3	217.5	15.0
<i>Of which:</i>							
Commercial							
Ocean traffic 3/							
1993	12.1	389.2	157.7	2.5	12.1	186.4	15.4
1994	12.2	416.8	170.5	2.4	12.3	194.3	15.8
1995	13.4	460.0	190.3	2.4	13.4	215.4	16.1
1996	13.5	483.1	198.1	2.4	13.5	226.9	16.8
1997	13.0	491.6	189.8	2.6	13.0	216.8	16.8

Source: Panama Canal Commission.

1/ Traffic tolls not assessed on net tonnage basis are assessed on displacement-tonnage basis.

2/ One Panama Canal (p.c) net ton equals 100 cubic feet space. Noncommercial ocean traffic is mainly U.S. Government traffic.

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

Table 41. Panama: Principal Commodities Shipped Through the Canal

(In thousands of long tons)

Fiscal Year Ended September 30	Atlantic to Pacific					Pacific to Atlantic				
	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
Total	97,213	102,595	120,845	124,205	115,547	60,491	67,943	69,458	73,861	74,233
Agricultural	31,670	31,531	43,684	41,420	34,592	11,693	13,075	12,172	13,124	12,580
Canned and refrigerated foods	859	1,113	1,218	1,230	1,213	4,582	4,883	5,645	5,717	5,761
Grains	29,949	29,547	41,118	39,279	32,399	3,462	4,520	2,956	3,155	2,912
Other	862	871	1,348	911	980	3,649	3,672	3,571	4,252	3,907
Mining products	20,103	21,427	21,960	22,022	20,596	15,523	19,233	21,458	23,796	25,152
Minerals	163	186	159	130	101	3,763	5,602	5,268	6,842	7,126
Phosphates and fertilizers	11,748	13,603	14,451	14,805	13,888	1,378	1,834	1,457	1,135	1,193
Ores and metals	4,386	3,766	4,128	3,641	3,776	6,172	6,330	6,633	7,882	8,412
Coke and coal	3,806	3,872	3,222	3,446	2,831	4,210	5,467	8,100	7,937	8,421
Crude oil and petroleum products 1/	13,569	14,312	15,944	19,245	19,151	11,946	12,650	11,516	13,541	11,591
Chemicals	7,292	8,258	8,557	9,555	8,860	1,487	1,451	1,557	1,820	1,502
Manufactures of iron and steel	3,532	3,746	4,898	4,705	3,911	2,174	4,101	4,276	3,640	4,249
Machinery and equipment	630	692	734	809	787	1,377	1,357	1,408	1,125	1,272
Lumber and wood products	4,854	5,297	5,928	7,238	7,146	4,775	4,165	4,784	3,792	4,060
Miscellaneous	15,563	17,332	19,140	19,211	20,504	11,516	11,911	12,287	13,023	13,827

Source: Panama Canal Commission.

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

Table 42. Panama: Travel Receipts and Expenditure, and Number of Visitors

	1993	1994	1995	1996	1997
(In millions of U.S. dollars)					
Net travel receipts	103.2	139.4	182.9	207.3	236.8
Travel receipts	225.7	261.6	310.4	343.1	374.2
Tourists	107.2	138.0	152.4	173.9	155.0
Business, official, and education related travel	66.7	59.7	60.4	62.1	85.8
Travelers in transit and others	51.7	63.8	97.6	107.1	133.4
Expenditure of Panamanians traveling abroad	-122.5	-122.2	-127.6	-135.8	-137.4
(In thousands)					
Visitors 1/	316.0	251.2	373.2	412.1	413.6
Tourists	190.5	241.3	264.1	299.0	263.5
Business, official, and education related travel	125.5	109.9	109.1	113.1	150.1
Travelers in transit 2/	229.7	283.6	431.8	467.7	573.5

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

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

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

Table 43. Panama: Public Sector External Debt and Debt Service

(In millions of U.S. dollars; stocks at end of period) 1/

	1993	1994	1995	1996	1997
Stock of external debt					
Total	5,429.8	5,505.5	5,946.1	5,107.3	5,064.1
Multilateral	767.3	733.0	764.5	806.0	934.8
IMF	115.7	132.8	110.6	130.9	143.7
IBRD	244.3	206.3	182.5	198.7	229.6
IDB	397.3	384.8	462.4	469.7	554.7
IFAD	10.0	9.1	9.0	6.7	6.9
Bilateral	757.7	770.6	838.0	542.1	506.3
Paris Club 2/	417.7	408.4	400.2	385.4	333.1
Venezuela, Mexico	262.1	277.2	299.2	0.0	0.0
Support group	77.9	85.0	138.6	156.6	173.2
Commercial	3,829.3	3,944.1	4,299.6	3,724.2	3,594.1
Medium- and long-term debt	3,613.4	3,830.0	4,193.6	3,724.2	3,594.1
<i>Of which:</i>					
Brady bonds	0.0	0.0	0.0	3,227.6	2,027.9
Other bonds	469.4	433.1	432.5	365.4	1,499.6
Short term 3/	215.9	114.1	106.0	0.0	0.0
Suppliers 4/	75.5	57.8	44.0	35.0	28.9
Debt-service obligations 4/					
Total	570.2	624.2	655.8	479.4	1,509.7
Principal	279.1	270.3	262.6	236.0	1,227.5
Interest	291.1	354.0	393.2	243.3	282.2
Multilateral	149.3	146.7	171.5	170.2	139.2
Principal	88.4	95.4	125.3	124.0	97.1
Interest	60.9	51.3	46.2	46.2	42.1
Bilateral	97.2	90.6	69.8	66.5	82.5
Principal	52.9	49.7	31.2	30.4	57.2
Interest	44.3	41.0	38.7	36.1	25.3
Commercial	308.8	374.6	397.7	230.9	1,280.2
Principal 5/	127.0	116.3	94.1	72.5	1,068.1
Interest	181.8	258.3	303.6	158.4	212.1
<i>Of which: Short term 6/</i>	4.5	10.4	2.9	0.0	0.0
Suppliers	15.0	12.3	16.7	11.8	7.9
Principal	10.8	8.9	12.1	9.1	5.2
Interest	4.2	3.4	4.6	2.7	2.7

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

1/ Includes accrued interest arrears.

2/ Includes insured suppliers' credit.

3/ Noninsured suppliers' credits only.

4/ Includes imputed charges on overdue obligations.

5/ Increase in 1997 is due to repurchases of Brady bonds.

6/ Consists of interest on credit lines and on money facilities of the National Bank; the latter is excluded from interest of the nonfinancial public sector in the balance of payments table.

Table 44. Panama: External Public Debt Indicators

(In percent)

	1993	1994	1995	1996	1997
Debt-service ratios 1/					
In terms of public sector receipts 2/					
Principal due	42.1	45.8	44.5	31.0	94.3
Interest due	20.6	19.8	17.8	15.3	76.7
	21.5	26.0	26.7	15.8	17.6
In terms of GDP					
Principal due	7.9	8.1	8.3	5.8	17.2
Interest due	3.8	3.5	3.3	2.9	14.0
	4.0	4.6	5.0	3.0	3.2
In terms of exports of goods and nonfactor services					
Principal due	21.0	20.3	21.9	15.4	44.4
Interest due	10.3	8.8	8.8	7.6	36.1
	10.7	11.5	13.1	7.8	8.3
External debt in terms of GDP 3/					
Multilateral and bilateral 4/	74.9	71.2	75.2	62.0	57.7
Of which:	21.0	19.4	20.3	16.4	16.4
IMF	1.6	1.7	1.4	1.6	1.6
Other 5/	53.8	51.7	54.9	45.6	41.3
Effective interest rates on total debt 6/					
	5.5	6.5	6.9	4.4	5.5
Memorandum item:					
Six-month LIBOR (year average)	3.4	5.1	6.1	5.6	5.8

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

1/ Debt-service ratios exclude payments due on short-term debt, but include payments due to the IMF.

2/ Central government receipts include transfers from the rest of the public sector and exclude grants.

3/ Including interest arrears and short-term debt.

4/ Includes insured suppliers' credits.

5/ Includes nonguaranteed suppliers' credits.

6/ Interest rate on average debt outstanding during the period. Rates are affected by variations in exchange rates.

Table 45. Panama: Operations on Medium- and Long-Term External Debt
Classified by Creditor 1/

(In millions of U.S. dollars)

	Out- standing 12/31/92	Operations in 1993					Out- standing 12/31/93
		Drawings	Amort- ization Due	Interest Due	Interest Paid	Adjust- ments 2/	
Total	4,993.8	48.7	279.1	286.6	224.5	109.2	5,213.9
Multilateral	836.4	28.7	88.4	60.9	149.3	-9.4	767.3
IMF	111.0	14.0	6.9	6.5	13.4	-2.4	115.7
IBRD	297.5	0.3	45.7	30.7	76.4	-7.8	244.3
IDB	415.8	14.4	34.3	22.6	56.9	1.4	397.3
IFAD	12.1	0.0	1.5	1.0	2.5	-0.6	10.0
Bilateral	759.0	20.0	52.9	44.3	59.0	-6.6	757.7
Paris Club 3/	445.1	0.0	19.8	16.5	36.3	-7.6	417.7
Venezuela and Mexico	241.6	0.0	13.1	25.1	0.0	-4.6	262.1
Support group	72.3	20.0	20.0	2.7	22.7	5.6	77.9
Commercial banks	3,318.2	0.0	127.0	177.3	2.0	119.9	3,613.4
Medium- and long-term debt	2,965.7	0.0	82.8	156.6	0.0	21.7	3,144.0
Bonded debt	352.5	0.0	44.2	20.7	2.0	98.2	469.4
Suppliers 4/	80.2	0.0	10.8	4.2	14.2	5.3	75.5
	Out- standing 12/31/93	Operations in 1994					Out- standing 12/31/94
		Drawings	Amort- ization Due	Interest Due	Interest Paid	Adjust- ments 2/	
Total	5,213.9	52.3	270.3	343.6	286.8	68.4	5,391.4
Multilateral	767.3	30.5	95.4	51.3	146.7	30.6	733.0
IMF	115.7	14.0	1.2	7.6	8.8	4.2	132.8
IBRD	244.3	1.4	53.5	18.1	71.6	14.1	206.3
IDB	397.3	14.6	39.4	24.7	64.1	12.3	384.8
IFAD	10.0	0.5	1.4	0.8	2.2	-0.1	9.1
Bilateral	757.7	21.8	49.7	41.0	61.6	11.8	770.6
Paris Club 3/	417.7	1.8	17.6	20.8	38.4	6.5	408.4
Venezuela and Mexico	262.1	0.0	12.1	16.9	0.0	-1.8	277.2
Support group	77.9	20.0	20.0	3.2	23.2	7.1	85.0
Commercial banks	3,613.4	0.0	116.3	247.9	65.7	34.4	3,830.0
Medium- and long-term debt	3,144.0	0.0	104.4	224.6	6.0	34.4	3,397.0
Bonded debt	469.4	0.0	11.9	23.3	59.6	0.0	433.1
Suppliers 4/	75.5	0.0	8.9	3.4	12.8	-8.3	57.8

Table 45. Panama: Operations on Medium- and Long-Term External Debt
Classified by Creditor (Continued) 1/

(In millions of U.S. dollars)

	Out- standing 12/31/94	Operations in 1995					Out- standing 12/31/95
		Drawings	Amort- ization Due	Interest Due	Interest Paid	Adjust- ments 2/	
Total	5,391.4	167.9	262.6	390.3	288.9	179.4	5,840.1
Multilateral	733.0	107.9	125.3	46.2	171.5	48.9	764.5
IMF	132.0	12.9	38.9	8.7	47.7	3.8	110.6
IBRD	206.3	2.8	43.1	15.5	58.6	16.5	182.5
IDB	384.8	90.9	41.8	21.3	63.0	28.4	462.4
IFAD	9.1	1.3	1.5	0.7	2.3	0.2	9.0
Bilateral	770.6	60.0	31.2	38.7	44.8	13.6	838.0
Paris Club 3/	408.4	4.7	18.5	22.3	40.9	5.6	400.2
Venezuela and Mexico	277.2	0.0	12.6	12.4	0.0	9.6	299.2
Support group	85.0	55.3	0.0	4.0	4.0	-1.7	138.6
Commercial banks	3,830.0	0.0	94.1	300.7	55.9	118.7	4,193.6
Medium- and long-term debt	3,397.0	0.0	93.6	269.8	24.4	118.8	3,761.1
Bonded debt	433.1	0.0	0.5	31.0	31.4	-0.1	432.5
Suppliers 4/	57.8	0.0	12.1	4.6	16.7	-1.7	44.0
	Out- standing 12/31/95	Operations in 1996					Out- standing 12/31/96
		Drawings	Amort- ization Due	Interest Due	Interest Paid	Adjust- ments 2/	
Total	5,840.1	368.3	236.0	243.3	659.7	-684.7	5,107.3
Multilateral	764.5	234.5	124.0	46.2	170.2	-69.0	806.0
IMF	110.6	75.9	51.9	6.5	58.5	-3.7	130.9
IBRD	182.5	68.6	31.4	12.5	43.9	-21.0	198.7
IDB	462.4	90.0	39.0	26.4	65.3	-43.7	469.7
IFAD	9.0	0.0	1.7	0.8	2.5	-0.6	6.7
Bilateral	838.0	27.8	30.4	36.1	247.7	-112.1	542.1
Paris Club 3/	400.2	3.4	17.6	21.6	39.2	-0.5	385.4
Venezuela and Mexico	299.2	0.0	12.8	9.6	203.7	-105.2	0.0
Support Group	138.6	24.4	0.0	4.8	4.8	-6.4	156.6
Commercial banks	4,193.6	106.0	72.5	158.4	230.0	-503.7	3,724.2
Medium- and long-term debt 5/	3,761.1	106.0	5.5	129.7	133.6	-504.3	3,358.9
Bonded debt	432.5	0.0	67.0	28.7	96.4	0.6	365.4
Suppliers 4/	44.0	0.0	9.1	2.7	11.8	0.1	35.0

Table 45. Panama: Operations on Medium- and Long-Term External Debt
Classified by Creditor (Concluded) 1/

(In millions of U.S. dollars)

	Out- standing 12/31/96	Operations in 1997					Out- standing 12/31/97
		Drawings	Amort- ization Due	Interest Due	Interest Paid	Adjust- ments 2/	
Total	5,107.3	1,486.4	1,227.5	282.3	1,541.9	-269.9	5,064.1
Multilateral	806.0	247.1	97.1	42.1	139.2	-21.2	934.8
IMF	130.9	45.8	26.1	7.5	33.6	-6.9	143.7
IBRD	198.7	54.5	29.2	13.8	43.1	5.6	229.6
IDB	469.7	144.6	39.8	20.3	60.0	-19.8	554.7
IFAD	6.7	2.2	1.9	0.5	2.5	-0.1	6.9
Bilateral	542.1	39.3	57.2	25.3	82.5	-17.8	506.3
Paris Club 3/	385.4	7.7	55.6	19.9	75.5	-4.4	333.1
Venezuela and Mexico	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Support group	156.6	31.6	1.6	5.4	7.0	-13.4	173.2
Commercial	3,724.2	1,200.0	1,068.1	212.1	1,292.6	-230.2	3,594.1
Medium- and long-term debt 5/	3,358.9	0.0	1,002.0	168.9	1,203.0	-230.2	2,094.5
Bonded debt 6/	365.4	1,200.0	66.0	43.3	109.3	0.2	1,499.6
Suppliers 4/	35.0	0.0	5.2	2.7	7.9	-1.0	28.9

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

1/ Excluding short-term debt. Figures include interest arrears.

2/ Adjustments due to valuation changes, data revisions, and/or debt reduction.

3/ Includes insured suppliers' credit.

4/ Noninsured suppliers' credits only.

5/ Drawing refers to short-term debt refinanced in January 1996 into medium-term debt. It also includes commercial bank debt converted into Brady bonds in 1996 and arrears to Libya.

6/ In 1997 Euro bonds (US\$500 million) and Global bonds (US\$700 million) were issued.

Table 46. Panama: Arrears on Public Sector External Debt Service

(In millions of U.S. dollars; end of period)

	1993		1994		1995		1996		1997	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Total	2,141.8	1,575.0	1,927.2	1,599.0	1,954.8	1,983.3	51.5	45.8	21.3	19.9
Commercial banks	1,743.3	1,249.7	1,800.2	1,478.6	1,817.9	1,841.1	48.8	44.0	20.0	19.2
<i>Of which:</i>										
Short-term debt 1/	183.9	32.0	72.0	42.1	28.1	34.0	20.0	15.2	20.0	19.2
Bonded debt	253.1	201.4	2.3	0.7	2.5	0.7	1.4	1.1	0.0	0.0
Mexico and Venezuela	109.1	100.3	121.2	117.2	133.1	140.5	0.0	0.0	0.0	0.0
Suppliers	36.3	23.6	3.5	2.4	1.3	1.0	1.3	0.7	1.3	0.7

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

1/ Consists of credit lines to public enterprises and money facilities of the National Bank.

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
1. INCOME TAX			
<p>Individuals and corporations receiving income earned from carrying out productive activities (including the rendering of services) within the territory of the Republic of Panama.</p> <p>Public sector institutions and private corporations are required to withhold income tax at the source (payroll and dividend taxes).</p>	<p>Tax base: The total amount of net taxable income—whether in money or in kind—earned by the taxpayer (gross income less expenses and deductions).</p> <p>Special regimes apply to:</p> <p>a. micro enterprises, and small- and medium-sized firms: Their annual gross income must not exceed B 200,000; income up to B 100,000 is taxed in accordance with the “personal income tax rates”. The amount between B 100,000 and B 200,000 is taxed on the basis of corporate rates.</p> <p>b. Income of artists and professionals on occasional visits is taxed at a rate of 15 percent.</p> <p>c. Enterprises located in the Colón Free Zone, or other free trade zone established in Panama, pay no tax on their earnings from external operations. Earnings from domestic operations are taxed at the general corporate rate of 30 percent.</p>	<p>A. Main personal deductions:</p> <ol style="list-style-type: none"> 1. Standard : B 800 per taxpayer 2. Medical expenses incurred in Panama (including insurance premiums) 3. Interest paid on home mortgage loans (up to B 15,000). <p>B. Exempted types of income:</p> <ol style="list-style-type: none"> 1. Compensation received in connection with occupational accidents and insurance policies in general; and pensions and other benefits received through the Social Security Agency (CSS). 2. Income earned from international maritime operations carried out by merchant ships registered in Panama. 3. Interest paid on: Panamanian government securities; savings or time deposit accounts with banks located in Panama; and interest paid to international public entities and foreign governments. 	<p>Personal: Individuals pay rates ranging from 4 to 33 percent (11 brackets) on net taxable income from B 3,000 to B 200,000; a proportional rate of 30 percent is paid if net taxable income exceeds B 200,000.</p> <p>Corporate: Legal entities pay a proportional rate of 30 percent on net taxable income (if they are listed in the <i>Registro Industrial</i>, under Law 3/86, they pay 30 percent on net taxable income up to B 500,000 and 34 percent on net taxable income in excess of B 500,000).</p>

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
	<p>d. Transport and telecommunications enterprises have the option to treat as net taxable income from operations 3 percent of the gross value of receipts from such operations, or to determine their net taxable income in accordance with the general rules of the Fiscal Code.</p> <p>e. Exhibition companies and film distributors pay an income tax rate of 6 percent.</p> <p>f. Dividend tax is levied through withholding effected by the firm that pays out the dividends. Withholding is 10 percent or 20 percent depending on whether registered or bearer instruments are involved. No dividend tax is payable if retained earnings are capitalized.</p> <p>g. The Complementary tax is an advance payment on dividend taxes made when the distribution of earnings or dividends amounts to less than 40 percent of after tax earnings of a corporation. Corporations are required to withhold 4 percent if they do not distribute dividends. No complementary tax is imposed if earnings are distributed in an amount equal to or greater than 40 percent of after tax earnings.</p>	<p>4. Interest earned by banks on loans extended to farmers during the planting cycle, provided the proceeds from the loans are used for the production of rice, corn, beans, or sorghum, and the annual interest rate does not exceed 8 percent.</p> <p>5. Premiums in respect of re-insurance operations relating to risks abroad.</p> <p>6. Prizes and other benefits obtained from games of chance administered by the government.</p> <p>7. Royalties paid abroad by entities established in the Colón Free Zone.</p> <p>C. Exempted persons or entities</p> <p>1. Firms or individuals exempted under the terms of public treaties or by contracts authorized or approved by Law.</p> <p>2. The state, municipalities, and autonomous or semi-autonomous state institutions.</p>	

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
	<p>h. Income gains from the sale of real estate:</p> <p>Tax base:</p> <p>(i) The value of the property at the time of transfer; or</p> <p>(ii) The land registry value indexed by 5 percent for each year of ownership; or</p> <p>(iii) The land registry value indexed by 10 percent for each year of ownership.</p> <p>At the time of the real estate transfer, the taxpayer can opt to pay a 2 percent transfer tax over the value of (a) or (b) whichever is higher (which serves as a tax credit). Alternatively, the taxpayer can opt to pay 5 percent over the value of (a) or (c), whichever is higher. The latter settlement is considered final.</p>	<p>3. Churches, seminaries, and religious associations, provided their incomes derive directly from the respective activities.</p> <p>4. Shelters, hospices, and charities in general, provided that their revenues are allocated exclusively for social assistance or public welfare.</p> <p>5. Individuals and corporations engaged in agriculture with annual gross revenue of less than B 100,000.</p> <p>6. Trust funds established by corporations for funding pension facilities that are additional to those of the CSS.</p> <p>7. Cooperatives.</p>	
	<p>2. REAL ESTATE TAX</p> <p>Owners of real estate within the territory of the Republic of Panama, including buildings or other permanent constructions, as recorded in the Public Ownership Register.</p>	<p>Tax base: the highest of the following items:</p> <p>(i) The value set by the Ministry of Finance and Cadastral Directorate (including improvements); or</p> <p>(ii) The price negotiated in the sale; or</p> <p>(iii) The assessed value in a succession.</p>	<p>a. New construction, for up to 20 years.</p> <p>Property values and corresponding rates:</p> <p>a. B 20,000–50,000: 1.75 percent.</p> <p>b. B 50,001–75,000: 1.95 percent; and</p> <p>c. From 75,001 upwards: 2.10 percent.</p>

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
3. INHERITANCE AND GIFT TAX			
Heirs or recipients of a particular item of property.	Tax base: The amount of any gift, whether revocable or irrevocable.	Bequests and grants in favor of the state, autonomous institutions of the state, or municipalities.	Rates are 4–33.75 percent, depending on the amount of the gift and the recipient's kinship with the party making the gift.
4. VALUE ADDED TAX			
The transferor, whether merchant, producer, importer, service provider, or lessor, etc.	<p>Tax base:</p> <p>(i) Imports: the c.i.f. value plus all duties, fees, assessments, or charges (for customs purposes);</p> <p>(ii) Sales of products, both wholesale and retail;</p> <p>(iii) The provision of services through which raw materials are converted into a finished or semi-finished product;</p> <p>(iv) The invoiced value of the lease of movable assets, or failing that, the value of the contract.</p>	<p>a. Sales of unprocessed agricultural products, livestock, poultry, and fish.</p> <p>b. The rendering of services (except those under (iii) of the tax base).</p> <p>c. Exports and re-exports.</p> <p>d. Transfers made to the Panama Canal Commission or the U.S. Army.</p> <p>e. Transfer of movable tangible assets, if effected in free trade zones or areas under customs control.</p> <p>f. Transfers and imports of carbonated beverages, fuel, lubricants, food items, pharmaceuticals, medicinal products, and school supplies.</p> <p>g. Imports and transfers of inputs used in agriculture.</p>	A general rate of 5 percent with a special rate of 10 percent on sales of alcoholic beverages and cigarettes.

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
5. COMMERCIAL AND INDUSTRIAL LICENSE TAX			
The owner or legal representative, i.e., the individual or legal entity to whom the commercial and/or industrial license is issued.	To provide permits for commercial and industrial activities in Panama for individuals and corporations. Tax base: The firm's total taxable capital (assets minus liabilities).	a. Agricultural activities. b. Manufacturing and sale of crafts and other small industries.	One percent of the capital of the firm, with a minimum of B 10.00 and a maximum of B 20,000.
6. IMPORT DUTIES			
Any individual or corporation importing goods liable to taxation.	All goods liable for taxation that are imported into Panama. Tax base: The c.i.f. value of the merchandise according to the rates set in the import tariff schedule in terms of the nomenclature of the harmonized commodity description and coding system.		Effective January 1, 1998, the maximum import tariff is 15 percent, with the exception of automobiles (15 to 20 percent), dairy products (40 percent), rice (50 percent), and sugar (50 percent). b. In addition, an administrative fee for customs services of B 70.0 applies in case customs declarations/assessments that exceed B 2,000.
7. EXPORT DUTIES			
Individuals or corporations exporting bananas.	Tax base: Boxes (bananas)		The applicable rate of B 0.10 per box (40 -42 pounds) will be abolished on January 1, 1999.

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
8. SELECTIVE SALES TAX (Excise Tax)			
Consumers	<p>Tax base:</p> <p>(i) Carbonated beverages:</p> <ul style="list-style-type: none"> • If domestically produced, the sales price. • If imported, the c.i.f. value plus all taxes, duties, assessments, or charges (for customs purposes) applicable to imports. <p>(ii) For domestic or foreign liquors: by degree of alcoholic strength. Domestic or foreign beers and wines: per liter.</p> <p>(iii) For cigarettes: the price of each pack sold.</p>	<p>a. Sales for export.</p> <p>b. Sales of products to the Panama Canal Commission, or the U.S. Armed Forces.</p> <p>c. Outward sales made directly to crews and passengers of ships or aircraft, or sales made to firms operating in free trade zones or ports established in the Republic of Panama.</p>	<p>a. Carbonated beverages, domestically produced or imported: 5 percent; syrups or concentrate used in the production of carbonated beverages: 6 percent.</p> <p>b. Liquors: B 0.035 per degree of alcoholic strength per liter.</p> <p>c. Wines: B 0.05 per liter.</p> <p>d. Beer: B 0.1325 per liter.</p> <p>e. Cigarettes: 32.5 percent of the consumer sales price.</p>
9. GASOLINE CONSUMPTION TAX (Excise Tax)			
Users of gasoline.	Tax base: Gallon of gasoline sold.		B 0.10 per gallon of gasoline.
10. TAX ON UNUSED LAND			
The owner of the land.	<p>Tax base: Privately-owned land in excess of 500 hectares containing no planted portions of prepared or converted land, or land which is not used for a particular commercial or industrial activity.</p>	<p>a. Land containing:</p> <ul style="list-style-type: none"> (i) forests that are being cultivated to an adequate extent; (ii) sawmills, mines, or operations of workable reserves or deposits of all kinds. <p>b. Land that is barren or not usable for cultivation.</p>	The tax is B 1.50 per annum for each hectare.

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
11. TAX ON BANKS, FINANCIAL INSTITUTIONS, AND EXCHANGE HOUSES			
Owner or representative.	Tax base: Banks: the nature of their activities. Exchange houses: fixed amount. Financial institutions: capital base.	State-owned banks.	Banking: institutions carrying a general license: B 25,000 per year; with an international license: B 15,000 per year; exchange houses B 600 per year, and financial institutions: 2.5 percent of their paid-up capital as at December 31 of each year, with a maximum of B 12,500 per year.
12. TAX ON INSURANCE PREMIUMS (Excise Tax)			
Any individual or corporation taking out insurance policies against risks, and renewals of such policies, in the Republic of Panama.	Tax base: The amount of gross insurance premiums paid to individuals or corporations engaged in the insurance business.	Fire insurance agencies and companies.	Seven percent.
13. TAX ON INSURANCE ENTERPRISES			
Enterprises selling insurance.	Tax base: The value of the total assets of an insurance enterprise as of December 31 of each year.	State-owned entities.	Enterprises with assets in excess of B 10 million: B 25,000 per year; enterprises with assets in the range of B 5-10 million: B 20,000 per year; and enterprises having assets of less than B 5 million: B 10,000 per year.

Panama: Summary of the Tax System as of September 30, 1998

Taxpayer	Description/Tax Base	Deductions/Exemptions	Rates
14. TAX ON FOREIGN TELEPHONE CALLS AND TELEGRAMS	Tax base: International telephone calls or telegrams.	Does not apply to telephone calls to public or private enterprises providing telephone services.	B 1.00 per international call/telegram.
Individuals or corporations using international telephone and telegram services.			

Note: This matrix excludes some minor municipal taxes.

Sources: Panamanian authorities; and Fund staff estimates.

Panama: Investment Projects in the Reverted Areas 1/

Sector	Project Description
Maritime	<p>Cristobal and Balboa Ports Management and Expansion Hutchison Port Holdings, Ltd., of Hong Kong was awarded a contract to operate, renovate, and expand the ports of Cristobal (Atlantic) and Balboa (Pacific). The company will pay Panama US\$22.2 million a year and requires an investment of US\$130 million during the first three years. The company's subsidiary, Puertos Panama, began operations in January 1997.</p>
	<p>Manzanillo International Terminal A joint venture of Panamanian and United States investors began operations in 1995; the Panamanian participants were bought out in 1998. The port is situated next to the Colon Free Zone; it presently handles 50,000 containers each month. During its first three years, US\$210 was invested by the project.</p>
	<p>Evergreen Container Terminal The Taiwanese company Evergreen, together with a Panamanian associate, have invested about US\$100 million in a container facility near the Colon Free Zone.</p>
Industrial	<p>Davis Export Processing Zone The governments of Panama and Taiwan each invested US\$13 million in 1996 to create an export processing zone near the Colon Free Zone. The site is the former Davis military base.</p>
Tourism	<p>Amador: United Enterprise Trust Group (UETG) Hotel Complex In early 1998 the UETG (Korean-American consortium) began construction of a US\$300 million hotel complex that will comprise 250 time share condominiums, 50 villas a luxury hotel of 16 floors and 500 rooms, and a convention center in Amador.</p>
	<p>Amador Port Area Hotel Complex About US\$110 million is being invested to build a 500 room hotel with a commercial center and a port-of-call for cruise ships.</p>
	<p>Hotel of the Americas About US\$20 million is being invested to develop the site of a former military academy of the United States, on a peninsula of Lake Gatun near the Atlantic. The project will include a 200 room 4-star hotel, restaurants, and recreation areas.</p>
	<p>Tennis Center A world class tennis center is being built in the Llanos de Curundu area. It will have 7 clay courts (one in a stadium), and two cement courts. The center will host international events and promote the sport in the region through training programs and tennis laboratories.</p>
Commercial	<p>Albrook Commercial Center About US\$46 million is being invested to develop and manage a commercial center in Albrook. The contract is for an initial period of 40 years.</p>

Source: Interoceanic Region Authority.

1/ This listing includes some of the major projects already developed or being developed as of mid-1998.

Panama: Canal Area Properties to be Transferred in 1999

Date	Site and Description
January	6 Chivo Chivo (antennas)
February	15 Marine Corps Barracks 113 hectares: 25 housing units; 2 barracks; golf course; and two restaurants.
March	15 Farfan Housing Area 331 hectares: 100 housing units; 4 barracks; and pool.
April	30 Rodman Naval Base Deep draft port facility; boating and water recreation marina; retail shops; bowling alley; community clubs; office building complex; post office; fire station; pool; gym; heavy industrial area; chapel; warehouses; family housing; dormitories; and cold storage.
June	<p>1 Western Polygon of Balboa</p> <p>30 Fort Sherman 9,349 hectares: small cement dock; water recreation facilities; chapel; gym; theater; outdoor recreation fields and beach; gas station; runway; community club; warehouses; family housing; and dormitories. About half of the land area is tropical forest.</p> <p>30 Pifia Training Area</p> <p>30 Galeta Island Communications Center Located in Rodman Naval Base, a part of the Caribbean Basin Radar Network.</p> <p>30 Fort Davis Communications Center</p> <p>30 Pratt Communications Center</p>
July	<p>30 Cocoli Housing Area 59 hectares: 162 housing units; 2 barracks; and community center.</p> <p>30 Rousseau Encampment 78 acres: camping area; dining hall; kitchen and laundry facilities; administrative offices; and bunkers.</p>
August	13 Balboa Secondary School 77 rooms; capacity for 1,300 students; auditorium; playing fields; beach; gym; and laboratories.

Panama: Canal Area Properties to be Transferred in 1999 (concluded)

Date	Site and Description
August	31 Tiro de Nuevo Emperador Polygon (remainder) 17,228 acres
September	1 Panama Canal College 4 hectares: 9 buildings; capacity for 2,200 students; library; gym; and laboratories.
	16 Curundu Secondary School 98 class rooms; 2 gyms; and tennis court.
November	1 Fort Kobbe 2,102 hectares: elementary school with capacity for 428 students; 264 housing units; 12 barracks; warehouses; and underground storage (presently used for munitions storage).
	30 Corozal (East) 130 hectares: 60 housing units; 7 barracks; retail stores; primary school with capacity for 300 students; bank; fire station; cold storage warehouse; industrial maintenance complex; mental health center; veterinary clinic; and cemetery.
	30 Fort Clayton 882 hectares: 1,392 housing units; 19 barracks; bowling alley; chapel motel; community clubs; gym; pool; theater; recreation center; fire station; gas station; automobile service center; recreation fields; 2 elementary schools having a combined capacity for 1,100 students; police station and detention center; office buildings; preschool facilities; post office; and hospital.
	30 Rodman Munitions Depository
	30 Curundu Laundry and Dry Cleaning Center
	30 Ancon Communications Center
	30 Morgue del Gorgas
December	22 Corozal (West)

Source: Interoceanic Region Authority, Property Reversion Section.