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Panama: 2000 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Panama

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2000 Article IV consultation with Panama, the following documents have been released and are included in this package:

- the staff report for the 2000 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 16, 2000,** with the officials of Panama on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on January 3, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- the Public Information Notice (PIN), which summarizes the **views of the Executive Board as expressed during its January 22, 2001, discussion** of the staff report that concluded the Article IV consultation.

- a statement by the authorities of Panama.

The document(s) listed below has been or will be separately released.

Recent Economic Developments paper

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PANAMA

Staff Report for the 2000 Article IV Consultation

Prepared by the Staff Representatives for the
2000 Consultation with Panama

Approved by Claudio M. Loser and G. Russell Kincaid

January 3, 2001

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Executive Summary

Economic performance in 2000 fell short of the targets of Panama's SBA-supported program. Real GDP is estimated to have grown by 2.3 percent, below the program's rate of 3.8 percent. The external current account deficit declined, but remained above 10 percent of GDP. The PSBR is estimated to be close to its target of 1.0 percent of GDP, but the central government was off track. Credit growth has declined, but remains high, and has continued to be financed in large part by a drawn-down of net foreign assets of the banking system. Real GDP growth is expected to pick up in 2001, and to reach 4.0 percent.

Substantial progress was achieved with reform of the regulatory and supervisory framework for banks in 2000. The Superintendency moved rapidly to put in place sound prudential regulations based on accepted international practice and achieved its goal of inspecting over 30 percent of the banks—among them a number of international license (offshore) banks—and is committed to inspect the remainder by end-2001. The legislative assembly and the Executive acted expeditiously to pass two laws to fortify the anti-money laundering regime.

Progress with other structural reforms was somewhat disappointing. In particular, a structural performance criterion on the submission of legislation to broaden the base of the VAT and increase the effective rate of tax on the income of banks by September 30, 2000 was not observed and submission was postponed for a few months. Submission of legislation to close the troubled National Mortgage Bank is somewhat behind schedule.

The authorities have reaffirmed their commitment to eliminating the PSBR in 2001, which will require a central government deficit of no more than 1.5 percent of GDP. The 2001 budget incorporates relatively ambitious targets for capital expenditure and an optimistic revenue assumption. In consequence, expenditure execution rates will have to fall well below the budgetary ceilings to achieve the central government's deficit target. The staff and authorities have not as yet agreed on expenditure targets, and the timing of submission of tax legislation is uncertain.

To give renewed impetus to the fiscal consolidation that is at the heart of the program, the staff propose that the authorities submit the tax legislation as soon as possible, and prepare detailed and comprehensive ceilings on expenditure and a realistic revenue projection that are consistent with fiscal balance in 2001. It will also be important that the structural reform program pick up momentum.

Panama: Basic Social and Demographic Indicators

Area (thousand sq. km)	77,082
Population	
Total (million) (est., 2000)	2.9
Rate of increase (percent a year)	1.6
Density (per sq. km.)	38
GDP per capita (US$) (1999)	3,395
Unemployment (Aug. 2000)	13.3
Population characteristics (1999)	
Life expectancy at birth (years)	75.5
Crude birth rate (per thousand)	19.5
Crude death rate (per thousand)	5.0
Infant mortality (per thousand live births)	20.8
Income distribution (1999)	
By highest 20 percent of households	63
By lowest 20 percent of households	2

Health (1994)	
Per capita calorie intake	2,534
Population	
Per physician (1995)	592
Per hospital bed (1996)	455
Access to safe water (percent of population, 1998)	
Total	84
Urban	92
Rural	72
Education (in percent, 1997)	
Net Enrollment rates	
Primary education	92
Secondary education	62
Higher education	21
GDP (1999)	US$9,545 million

I. Introduction

1. The 2000 Article IV consultation discussions with Panama were held in Panama City from October 30–November 16, 2000. The staff team met with the Minister of Economy and Finance, the General Manager of the Banco Nacional de Panamá (BNP), and with senior officials from the Treasury, the Office of the Controller General, the Social Security Agency, and other central government agencies. The staff team also met with the budget committee of the legislative assembly, and with the chamber of commerce and other private sector representatives.[1]

2. On June 30, 2000 the Executive Board approved a 21-month Stand-By Arrangement for the equivalent of SDR 64 million (31 percent of quota). The authorities intend to treat the Stand-By Arrangement as precautionary. In approving the arrangement, Executive Directors welcomed the authorities' resolve to achieve their social objectives within a sound macroeconomic framework based on the further consolidation of the public finances. In particular, they supported the government's objective of eliminating the borrowing requirement of the nonfinancial public sector (PSBR) by 2001, and underscored the importance of both expenditure control and tax measures. Directors remarked on the challenge the authorities faced in addressing weaknesses in financial supervision and regulation, including those that affect the offshore financial center. They urged the Banking Superintendency to strengthen its monitoring and enforcement capabilities, and to improve its anti-money laundering regime.

3. **Performance under the program has been uneven.** Substantial progress has been achieved with the reform of bank regulation and supervision. Progress on other structural issues has been limited, and two structural performance criteria were not observed (Table 1).[2] The performance criterion (PC) on the PSBR was observed for January–September 2000 and the PSBR is expected to be close to its January–December 2000 target. However, the PC on the deficit of the central government was not observed for January–September 2000 and is not expected to be observed for January–December 2000 (Table 2).

[1] The team comprised Messrs. Mackenzie (Head), Bindley-Taylor, Gapen, Gómez-Oliver, Paiva, Papaioannou, and Ms. Quiros (Assistant), all from WHD, and Mr. Moore (MAE). Mr. Maciá, Assistant to the Executive Director for Panama, participated in the final discussions.

[2] These were: submission by September 30 to the assembly of legislation to broaden substantially the base of the VAT and increase substantially the effective rate of taxation of bank income, and submission of legislation to close the National Mortgage Bank by December 15, 2000.

4. The administration of President Mireya Moscoso assumed office on September 1, 1999. The President's platform committed the government to eradicate, or at least greatly reduce poverty during its five-year term. During its first year, the coalition of parties supporting the administration held 37 of the 71 seats in the legislature. In September 2000 the administration lost its controlling majority when the Democratic Christian Party crossed the floor with its five seats to join the opposition Revolutionary Democratic Party.

5. Panama provides core statistics to the Fund and publishes a comprehensive set of data and a calendar for the release of key indicators. Panama has also expressed interest in participating in the General Data Dissemination System (GDDS) and has made significant progress in developing metadata. The authorities have received technical assistance from the Fund's Statistics Department (STA) on national accounts and balance of payments statistics, and have improved the timeliness and quality of the data in both areas, though shortcomings remain. Regarding the balance of payments, the authorities have signaled their interest in additional technical assistance to improve the accounting of transactions involving the reverted areas (the former Canal Zone). With respect to government finance statistics, there is an ongoing project to establish an integrated financial administration system (SIAFPA).[3] However, the system's coverage of central government expenditure should be improved, and its institutional coverage expanded beyond the central government to the rest of the public sector. Finally, the reporting lag for the consolidated banking system's balance sheet needs to be reduced (Appendix II).

6. Panama has accepted the obligations of Article VIII and maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

II. Recent Economic Developments and Performance Under the Stand-By Arrangement

A. Macroeconomic Developments

7. **Macroeconomic performance in 2000 fell somewhat short of the program's targets. Real GDP growth and the adjustment in the external current account were both lower than projected. The PSBR was close to its target, despite the impact of lower growth on revenues, but the central government's deficit exceeded its target. Inflation remained low as envisaged. Domestic credit growth started to slow, but by less than expected. Net foreign assets of the banking system continued to decline, instead of increasing as programmed.**

[3] SIAFPA stands for *Sistema Integrado de Administración Financiera en Panamá.*

8. On the basis of provisional estimates through the third quarter, the projected rate of growth of real GDP for 2000 has been revised down to 2.3 percent, well below the program's projection of growth of 3.8 percent and below the 3.0 percent growth rate achieved in 1999 (Figure 1 and Table 3). Unexpectedly large declines in construction, farming and fishing and related food-processing industries account for most of the shortfall. The service sector, which accounts for about 80 percent of GDP, is estimated to have grown by 4.7 percent in real terms in 2000 and to have contributed 3.9 percent to growth (Box 1). Telecommunications and transport, excluding the Canal continued to grow rapidly, while the Colón Free Zone (ZLC) began to recover from the impact of economic difficulties in several South American economies that are important customers.[4] Container storage and transshipment are also estimated to have expanded quite strongly in 2000, and financial intermediation continued to grow.

9. The modest growth of real GDP contributed to an increase in unemployment from 11.8 percent in August 1999 to 13.3 percent in August 2000, the rate that prevailed from 1995–98.[5] Inflation in Panama is low because of its monetary arrangements, and 12-month consumer price inflation in November 2000 was 1.1 percent.

10. The central government's deficit for the first nine months of 2000 exceeded the program target by US$55 million. The impact of slower than programmed growth on revenues is estimated to account for about US$25 million of this excess, and greater than programmed transfers to the social security system (CSS) for US$20 million.[6] For the year 2000, the central government deficit is projected to be US$330 million (3.2 percent of GDP), exceeding its target by about US$85 million. The PSBR through September 2000 is

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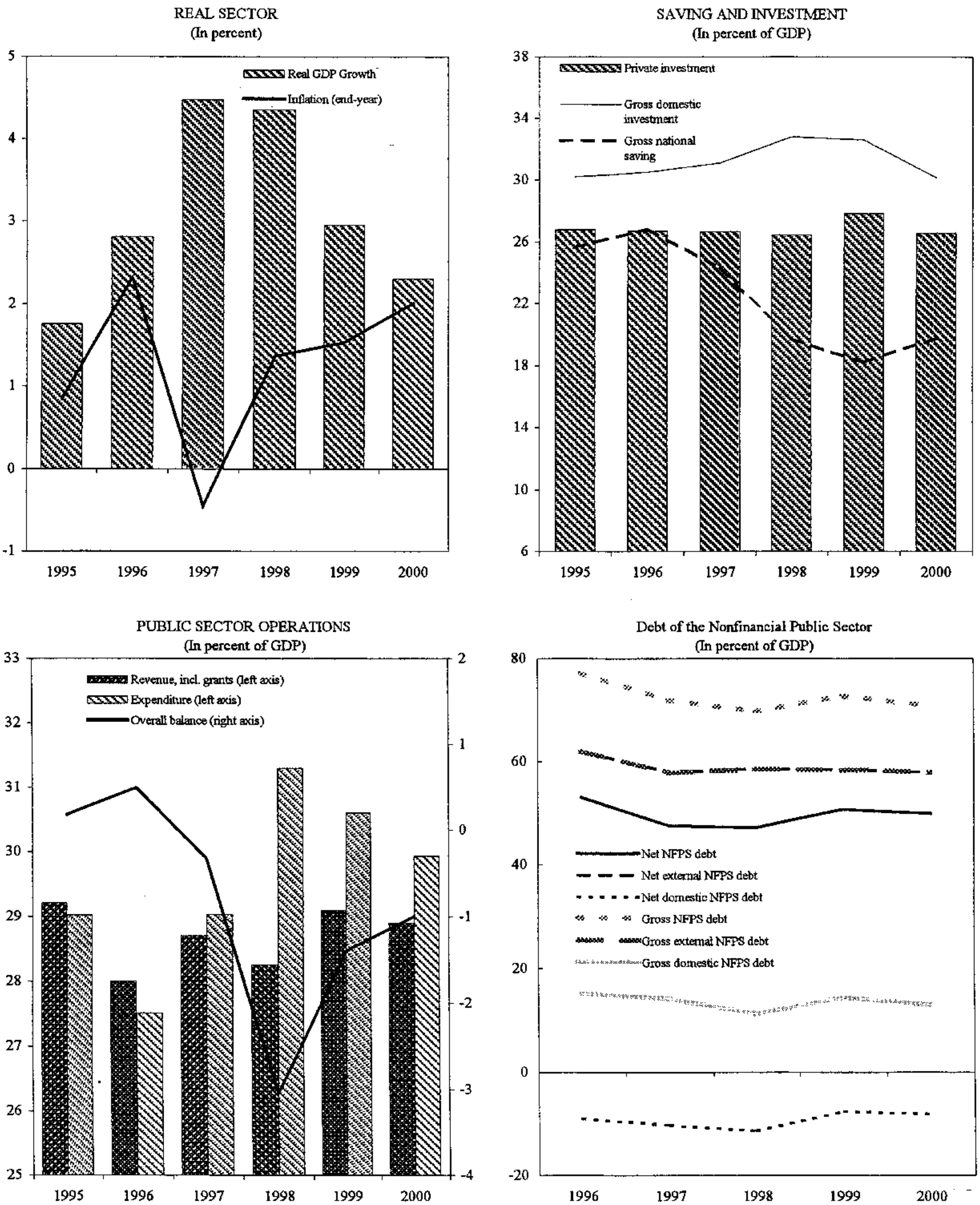
[4] The ZLC is the largest merchandise redistribution center in South and Central America. More than 1,900 enterprises engage in re-exporting, repacking, light assembly and related activities. In 1999, its gross exports amounted to US$4.4 billion, and its imports to US$3.9 billion. Gross exports are estimated to have increased by 9.6 percent in 2000, and imports by 10.4 percent.

[5] The participation rate fell from 61.2 percent in 1999 to 59.9 percent in 2000. Had it not changed, the rate of unemployment would have been 13.6 percent, given the level of employment.

[6] The CSS is part of the nonfinancial public sector but is not consolidated with the central government. The central government's transfers to the CSS noted in the text finance pensions paid by the civil servants' complementary pension plan.

Figure 1. Panama: Selected Economic Indicators



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

Box 1. Panama: Contribution to GDP Growth by Sector

The growth rate of the service sector has been stable in recent years and is estimated to have reached 4.7 percent in real terms in 2000. Since the service sector is the backbone of Panama's economy, accounting for approximately 80 percent of GDP, this consistency has contributed to the overall stability of output growth. In contrast, growth in primary and secondary activity has varied quite markedly over time. Primary activity, including agriculture and mining, accounts for approximately 8 percent of GDP and secondary activity, including manufacturing and construction for the remaining 12 percent.

The fastest growing service sector has been telecommunications and transport, excluding the activities of the Canal, whose share of service sector output has been falling over time. However, other service activities related to the Canal, such as container storage and transshipment, are growing quite strongly. The most volatile component of the service sector has been the wholesale activity of Colón Free Zone, reflecting the fluctuation in income and activity of its important customers in South America.

Panama: Contribution to GDP Growth by Sector 1/

	1996	1997	1998	Rev. 1999	Proj. 2000
GDP growth at constant prices	**2.8**	**4.5**	**4.4**	**3.0**	**2.3**
Services	**3.3**	**3.8**	**3.7**	**3.8**	**3.9**
Colon Free Zone wholesale	-0.4	1.4	-0.2	-1.0	0.7
Transport and communications	0.3	0.7	1.4	1.4	1.2
Panama Canal	0.2	-0.1	0.3	0.1	0.2
Other transport and communications	0.1	0.9	1.2	1.3	1.1
Financial intermediation	1.5	0.1	1.3	1.2	0.5
Other services	1.9	1.6	1.3	2.2	1.5
Primary Activity (Agriculture and Mining)	**0.1**	**0.1**	**0.5**	**0.0**	**-0.2**
Secondary Activity	**-0.3**	**0.8**	**0.6**	**0.1**	**-0.8**
Manufacturing	-0.1	0.6	0.4	-0.5	-0.4
Construction	-0.2	0.2	0.3	0.7	-0.4
Plus import taxes less imputed banking services	**-0.2**	**-0.3**	**-0.7**	**-0.9**	**-0.4**

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

1/ Contributions in percentage points using contemporaneous weights.

estimated to be US$86 million, or US$7 million lower than the program ceiling.[7] For the year For the year 2000, the PSBR is projected to reach US$110 million, slightly exceeding its target of US$100 million (Tables 4 and 5).

11. The rate of growth of bank system credit to the economy declined from 16 percent in the 12 months ending in September 1999 to 14 percent in September 2000, and is projected to have declined to 12 percent at end-December 2000, above the programmed rate of 9 percent (Table 6). The slower credit growth results in part from more cautious lending in light of banks' need to conform to the new regulations for loan classification starting January 1, 2001. It also reflects some decline in the number of creditworthy borrowers after a period of rapid expansion in the consumer loan market. The short-term lending rate has remained at about 10 percent for the past 15 months, and the gap between it and the U.S. prime rate has in consequence narrowed somewhat.

12. **Banking conditions remain generally sound.**[8] As of September 30, 2000, Panama's 80 general and international license banks reported aggregate assets of US$38 billion, or 3.8 times GDP (see Box 2). The equity to asset ratio for the system was 9.1 percent and for Panama-headquartered banks was 11.8 percent, well above the regulatory minimum of 8 percent. Nonperforming loans (NPLs) were 2.9 percent of loans compared with 2.4 percent at end-1999. Provisions against loan losses amounted to 62 percent of NPLs compared to 74 percent at end-1999. Some banks expect a further increase in the NPL loan ratio in the coming months because of the impact of increased unemployment on the debt-servicing capacity of households. The return on average assets for the system was 1.5 percent as of September 30, 2000. This figure leaves room for additional provisioning that will be required under the new loan classification regulation that will come into force starting in January 2001.

13. The deficit on external current account is estimated to have declined from US$638 million in the first half of 1999 to US$470 million in the first half of 2000, and is projected to decline from US$1,377 million or 14.4 percent of GDP in 1999 to US$1,028 million or 10.4 percent in 2000 (Table 7). The estimated decline for the year as a whole falls short of the program's projections by about US$100 million of GDP, of which about US$60 million is attributable to the direct impact of higher than programmed prices for petroleum and its derivatives. In addition, the ZLC's net exports were lower than projected in spite of the recovery in the growth of exports in 2000. Direct foreign investment financed

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[7] The divergent behavior of these two fiscal indicators results from the fact that the CSS's revenues grew by more than projected, both because of a successful campaign to reduce outstanding arrears and because the payroll tax contribution base was less affected by slow growth than the central government's tax bases.

[8] Chapter III of the issues paper surveys recent developments with the banking system and regulatory reform.

about 33 percent of the current account deficit, and a net decline in the foreign assets of the Panamanian banking system (estimated at US$300 million) covered most of the rest.

14. The real effective exchange rate appreciated by 1.6 percent in the first nine months of 2000, and has risen by 3.3 percent since December 1998. An appreciation of the nominal

Box 2. Panama: The Banking System

At end-September 2000, Panama's banking system comprised 80 banks and eight representative offices. Of the banks, 54 held a general license (GL), which allows a bank to conduct business with both residents and nonresidents, and 26 held international licenses (IL), which allow a bank to do business only with nonresidents. Among the GL banks, 26 were headquartered in Panama. The eight representative offices are restricted to non-banking activities such as a liaison function with the head office and marketing. They may not take deposits.

Panama's licensing requirements are distinguished from those used by many offshore financial centers[1] in two notable ways: (i) banks must establish a physical presence with local staff for each of the licensing types and (ii) eligibility for a general license is open to both local and foreign ownership. The GL banks account for a non-negligible share of employment in the organized sector (Table) and account for over 80 percent of the system's total assets.

Panama: Banking System

(Financial information in billions of balboas as of September 30, 2000)

Type of Depository Financial Institution (DFI)	Number of DFIs	Percent of total	Emplo-yees	Percent of total	Assets	Percent of total	Loans	Percent of total	Deposits	Percent of total
General license banks	54	61.4	12,159	96.8	31.0	81.8	18.8	86.0	21.4	78.4
- Panama headquartered bank	26	29.5	9,767	77.8	20.9	55.0	12.9	58.7	12.6	46.1
International license banks	26	29.5	397	3.2	6.9	18.2	3.1	14.0	5.9	21.6
Representative offices	8	9.1								
Total Banking System	88	100.0	12,556	100.0	37.9	100.0	21.9	100.0	27.3	100.0

Source: Superintendency of Banks.

[1]The following characteristics are frequently associated with OFCs: the bulk of financial sector transactions on both sides of the balance sheet are with individuals or companies that are not residents of OFC's, the transactions are initiated elsewhere; and the majority of the institutions involved are controlled by nonresidents. This definition is set out in the staff's June 2000 report to the Executive Board - Offshore Financial Centers: The Role of the IMF.

effective rate resulting from the appreciation of the U.S. dollar (Panama's currency) against other major currencies outweighed the impact of a favorable inflation differential[9] (Figure 2).

B. Structural Reform

15. **In the past six months, the authorities have taken concerted action to address concerns over the quality of supervision and regulation of the banking system and the effectiveness of the anti-money-laundering regime**. The Superintendency of Banks has adopted the Basel Core Principles for Effective Banking Supervision (BCP) as its standard, and in November 2000 completed a self-assessment (with Fund assistance) of its adherence to the BCP. The authorities have committed themselves to undertaking a Module 2 assessment to be led by the Fund under its initiative for OFCs beginning in April 2001. The Superintendency completed consolidated inspections of 30 general and international licensed banks, exceeding the target of the structural benchmark which called for an inspection rate of 30 percent (24 banks). The Superintendency is using its self-assessment as a basis for a review that began in October 2000 of the quality of its onsite supervision and offsite monitoring. The start of the review by December 31, 2000 was a program structural benchmark.

16. To strengthen the anti-money laundering regime, the authorities submitted two new laws to the assembly that were promptly approved and promulgated in early October. These laws broaden the concept of money-laundering crime to include the laundering of proceeds from fraud, extortion, embezzlement, corruption of public officials, kidnapping, acts of terrorism and theft or trafficking in vehicles or illegal weapons. (Previously it covered only drug-related offenses). The new laws also facilitate both the transmittal of reports on suspicious transactions to the competent authorities and the exchange of information with other jurisdictions. In addition, they extend the Superintendency's powers of inspection to include trust companies.[10]

17. **Limited progress has been achieved in other areas of reform** (Table 1). The structural performance criterion on the submission to the assembly by September 30, 2000 of legislation to broaden substantially the base of the VAT and increase substantially the effective rate of tax on bank income was not met. The structural performance criterion on submission of legislature to close the National Mortgage Bank (BHN) by December 15, 2000

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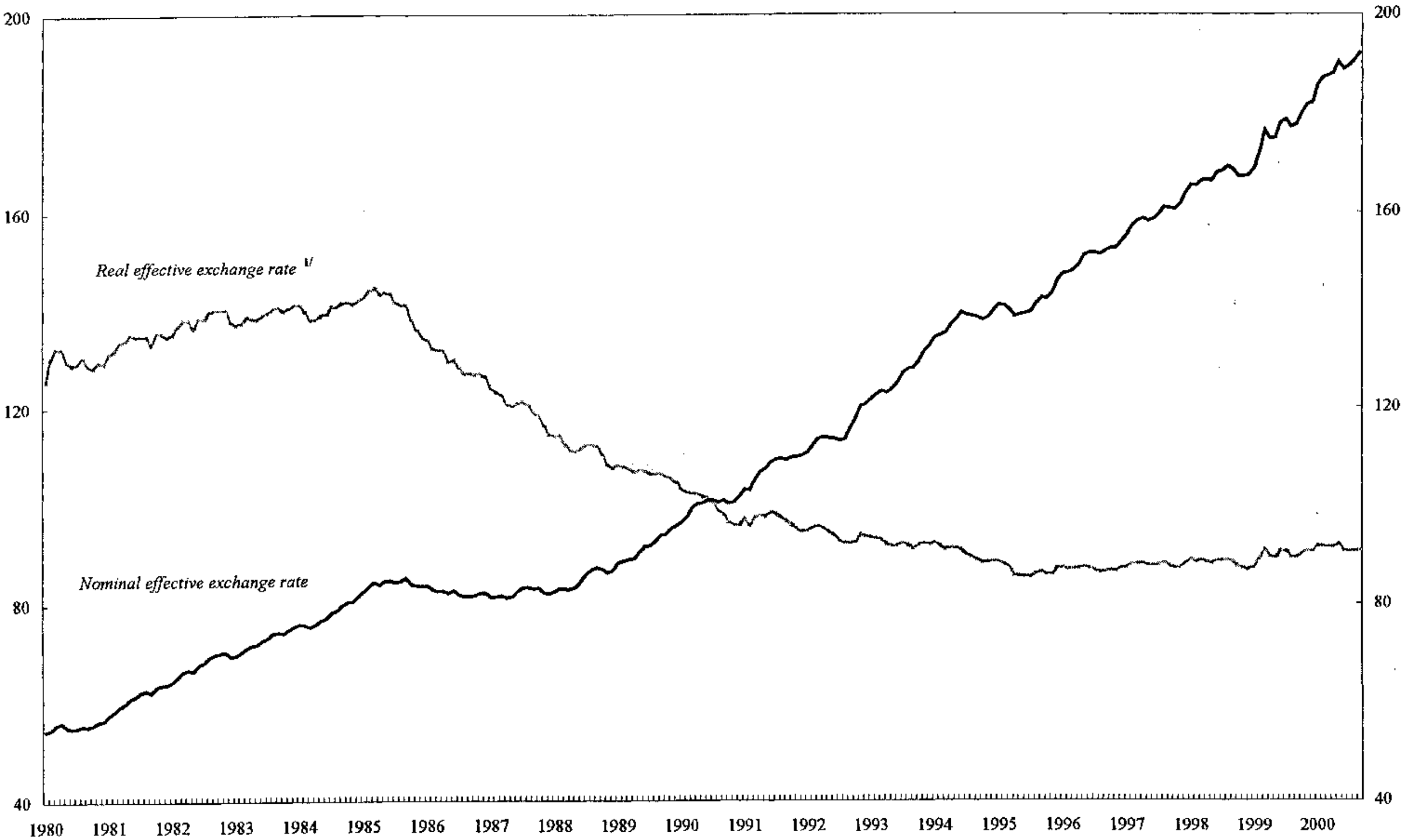
[9] The Balboa, used as a unit of account in Panama, has a fixed value of one U.S. dollar. Panama issues coins with the same denomination and shape as their U.S. counterparts, but does not issue paper currency.

[10] The Superintendency's authority to determine the beneficial owner was previously limited to banks.

Figure 2. Panama: Exchange Rate Developments 1/
(1990=100)



Source: IMF, Information Notice System.

1/ Trade-weighted index of nominal exchange rates deflated by using seasonally adjusted relative consumer prices. An increase indicates appreciation.

was not observed, although legislation should shortly be submitted. The external audit of the Agricultural Development Bank (BDA) began in December 2000, six months later than scheduled. The structural benchmark on the expansion of SIAFPA's coverage was satisfied in part, but the objective of including expenses financed by international agencies was not achieved. The government named a commission to elaborate a proposal for reforming the social security system on November 24, 2000. The commission is expected to formulate a reform proposal in six months. Draft legislation has been prepared and partially addresses the program's structural benchmark of reforming IDAAN, the water company. The draft law allows for contracting out administrative and financial services such as billing, collections, construction, and metering.

III. Policy Discussions

18. Discussions between staff and authorities centered around recent macroeconomic performance, progress with structural reform—especially bank regulatory reform—Panama's medium-term prospects and fiscal policy. Given Panama's monetary arrangements, the budget is the key instrument of macroeconomic policy. Effective financial regulation is also critical. The basic objectives of the authorities' program remain fiscal consolidation supported by reforms that address structural weaknesses in the public sector, and improved targeting of social expenditure to benefit the poor. The structural reform agenda includes measures to broaden the base of the tax system, improve expenditure management, and redress the actuarial imbalance of the social security system.

19. **The program targets the elimination of the PSBR in 2001, and the maintenance of a balanced fiscal position in 2002–2004.** Together with a pick-up in economic growth this tight fiscal stance is intended to bring about a marked reduction in the burden of public sector debt in relation to GDP. This reduction is expected to reduce the cost of public debt service, and thereby release resources for social programs.[11] It would, in addition, lower the external current account deficit and make Panama more attractive to domestic and foreign investors. The program also includes measures that build on the substantial progress already achieved with financial reform.

A. Recent Developments and Prospects

20. The authorities remained confident about Panama's medium-term growth prospects. They noted that much of the shortfall in real GDP growth in 2000 reflected one-time exogenous shocks. Several infrastructure projects that were either coming on stream or under construction would help develop new service industries or increase the potential of already established ones. The impending completion of the Panama Railroad (a 47-mile track across

[11] External debt service amounted to 8 percent of GDP in 1999, of which 3.7 percent was interest. The spread on Panama's external debt was 501 basis points as of December 29, 2000.

the Isthmus of Panama) and the recently expanded highway from Colón to Panama City will triple capacity for the transshipment of containers. The recent completion of new ports on the Pacific and Caribbean sides of the Canal has boosted Panama's port capacity and its potential role as a multi-modal transportation center. This expansion can be expected to sustain rapid growth in service receipts from transportation and tourism. Growth in transportation and tourism in 2000 was already compensating to some degree for the shortfall in agricultural exports. The staff agreed with the authorities that real GDP growth was likely to increase to about 4 percent in 2001, somewhat below the program's projection of 4.5 percent.

B. Fiscal Policy and Related Structural Reforms

21. Regarding the projected outturn for the central government budget in 2000, the authorities noted that much of the difference between the estimated and program deficits reflected the effects of the growth shortfall on tax collections. Adjusted for the impact of slower than projected growth, the central government's deficit would be about US$30 million above its target. The cyclically-adjusted PSBR would be lower than programmed. In an effort to keep the budget on course, the authorities had kept a tight rein on capital expenditure. The staff expressed its support for the efforts at expenditure control, but noted that these efforts need not single out capital expenditure.

22. The budget for 2001, which was presented to the legislative assembly in September 2000, follows tradition in incorporating ambitious targets for expenditure, particularly capital projects. In addition, the revenue projection for 2001 is optimistic, since it takes account of neither the impact on the revenue base of lower GDP growth in 2000 nor the delay in submitting tax legislation to the assembly. The staff's projection of revenues in 2001 was based on an updated estimate of revenues in 2000 and on the assumption that the tax measures take effect on July 1, 2001. Achieving the 2001 central government deficit target of 1.5 percent (consistent with a zero PSBR) would then require that nominal expenditure growth not exceed 1 percent in 2001. The authorities agreed on the need for expenditure restraint in 2001, but remarked that they had been successful in underexecuting the 2000 budget. In spite of the delay with tax reform, they were confident that the 2001 target of a PSBR of zero could be achieved by a similar control of expenditure.

23. The staff urged the authorities to prepare a revised budget with realistic revenue projections and an overall level of expenditure allocations that could be fully executed without thwarting the achievement of the targeted deficit. Underexecution could entail haphazard execution that would not properly reflect expenditure priorities. If the authorities could not submit a revised budget to the assembly, they should base budget execution on a set of comprehensive, realistic and detailed expenditure ceilings. Preparation of these ceilings will allow for a more informed choice among expenditure priorities, and make clearer the trade-offs entailed by delays in tax reform. The staff also noted that the recent extension of SIAFPA to include in current-period expenditures the settlement of obligations generated by expenditure commitments from previous budgets would enhance expenditure control. The further extension of SIAFPA to expenditures financed by development agencies was highly desirable as well.

24. The authorities reaffirmed their intention to submit legislation to the assembly that would address two related structural flaws of Panama's tax system: its narrow base, and the special treatment it confers on certain sectors and taxpayer classes. The legislation would propose a significant broadening of the base of the value-added tax by the inclusion of a number of personal services and sumptuary goods. It would also reduce significantly the exemptions and preferences enjoyed by banks and other financial institutions. The authorities intended to submit the draft law by April 30, 2001 at the latest, and were aiming for submission by March 1. If the law takes effect on July 1, 2001, its measures could yield as much as 0.5 percent of GDP in additional revenue in calendar 2001, and 1.0 percent of GDP in 2002. The ratio of tax revenue to GDP is expected to increase further in 2002–2004 as a result of the program of administrative improvement now underway.

25. Ineffective tax administration has contributed to the low yield of Panama's tax system. The authorities explained that they were collaborating with the Interamerican Center for Tax Administration (CIAT) in a project to improve administrative effectiveness and efficiency. The project staff are working to develop a database of comprehensive individual taxpayer accounts as well as a system of electronic filing. The project will allow speedy and efficient crosschecking of taxpayers' returns, and timely and accurate checks of the arithmetic accuracy of returns.[12]

26. The Trust Fund for Development (TFD) is custodian of the proceeds of past privatizations and asset sales, which now amount to about 14 percent of GDP. Its assets were required to be invested in fixed-term near-cash instruments until June 2000, when the assembly passed legislation that allowed the TFD to diversify its portfolio more broadly.[13] The new law should allow the TFD to earn a substantially higher rate of return on its assets without undue risk. It will increase nontax revenue, since the budget receives the income from the TFD's investments.

27. Although the CSS currently runs a surplus based on the income it earns on its accumulated reserves, revenue from payroll taxes is less than expenditure on pensions and the health program. This gap will widen progressively because of the interaction of

[12] Since its inception in the second half of 2000, the project has also identified over US$100 million in tax arrears and about US$200 million in undeclared taxable income. The tax department is contacting taxpayers in arrears and negotiating settlements with them.

[13] Specifically, the TFD's assets may now be invested in one or more of seven investment classes: external debt; term deposits in national and international banks with an investment grade rating; investment-grade mortgage bonds; investment-grade corporate debt; bonds issued by multilateral lending agencies; bonds issued by the Panama Canal Authority; and international bond funds. Apart from term deposits, only 20 percent of total TFD assets may be invested in any one category. The law allows the TFD to invest in Panama's external debt, but it does not allow debt repurchases. The TFD may not invest in Brady bonds.

population aging with the generous benefits offered by the system. The authorities have recognized this problem and recently appointed a high-level commission to propose changes to the system. The commission is composed of representatives of the labor unions, employers, pensioners and government, so that its findings may enjoy broad social support. The government has asked the commission to provide its recommendations for reform by mid-June, 2001.

28. The authorities described the steps they had taken to resolve the problems of the Agricultural Development Bank (BDA) and the National Mortgage Bank (BHN), two troubled public financial institutions. Legislation to liquidate the BHN is to be submitted to the assembly shortly and over the next twelve months its operations are to be wound up. The BDA is to remain open, but its operations will be rationalized to ensure that its loans benefit the smaller farmer. The government intends to introduce a more transparent scheme of subsidies for home ownership that will be included in the budget. The audit that is now being conducted by an international accounting firm will provide valuable information for the rationalization program.

29. According to the World Bank, some 37 percent of Panamanians live below the poverty line.[14] The authorities believe that sustained growth in GDP per capita in combination with well-targeted social programs is the most effective way of alleviating poverty. Accordingly, the government's social programs aim to increase primary education and basic health services both in real terms and as a share of social expenditure, to rehabilitate the country's water supply network, and to subsidize low-income housing in a cost-effective way. The administration is also addressing the problem of inadequate land titling, which impairs the acquisition of financial capital by the poor. The Government's program is being undertaken in cooperation with the Inter-American Development Bank (IDB). Over 1.1 million hectares are to be titled under the program: over 500,000 hectares in the province of Veraguas in phase one, which is already underway, and 620,000 hectares in the provinces of Herrera and Los Santos in phase two. The staff stressed the importance of a sound overall fiscal strategy for the success of the anti-poverty program. Tax reform and improved public expenditure management were an integral part of the anti-poverty strategy, since they would increase resources for social programs.

C. Financial Developments and Reform

30. The authorities noted that since the passage of the 1998 banking law, the Superintendency of Banks has issued and is now applying a set of regulations that conform to accepted international practices. The regulations include: (i) the requirement that banks and financial groups adopt internationally-accepted standards for accounting and auditing, (ii) introduction of a new capital adequacy framework in line with the Basel Capital Framework,

[14] Chapter IV of the issues paper summarizes the findings of a poverty assessment study undertaken by the Government of Panama with the assistance of the World Bank.

(iii) imposed limits on loans and investments with related parties and single obligors, and (iv) improved internal risk management procedures for liquidity, interest rate and country risk.

31. More recently, the Superintendency approved two new regulations for asset quality: one governing loan classification and provisioning and the other classification of investment securities. The issue of the first set of regulations by June 30, 2000 was a structural performance criterion, and was met. The loan classification regulation comes into force in stages. Starting January 2001, banks will be required to classify loans using the new regulation, and will need to meet half of the provisioning requirements for end-June and the full requirement for end-December 2001. None of the banks with whom the mission met expected problems in meeting the new requirements.

32. The authorities stressed the advances the Superintendency had made in broadening the scope of Panama's anti-money laundering regime and in strengthening its application. They emphasized that that banks have been obliged since 1990 to satisfy a "know your customer" (KYC) standard that requires identification of the ultimate beneficial owner controlling a transaction. The Superintendency routinely conducts inspections of banks' compliance with the anti-money laundering laws and regulations and is empowered to deploy a range of sanctions that ensure meaningful compliance. The laws passed in October 2000 extend the Superintendency's inspection authority to trust companies. The authorities are confident that given the progress realized in strengthening Panama's anti-money laundering regime, the Financial Action Task Force will remove Panama from its list of noncooperating jurisdictions. The staff reviewed the adequacy of the Superintendency's KYC requirements—both legal and regulatory, as well as onsite inspection practices. In the staff's preliminary judgment, the Superintendency's regulations and inspection practices comply with the standard set out in the Basel Core Principles for Effective Banking Supervision, and in particular with Core Principle 15. However, the planned Module 2 assessment under the Fund's OFC program will allow a more definitive evaluation of compliance to be made.

33. The program of systematic inspections that the Superintendency began in 2000 is to continue in 2001, and the agency has committed itself to inspecting every bank by the end of that year. An inspection of the publicly-owned Caja de Ahorros is underway, and an inspection of the BNP—the other publicly-owned bank—will also be undertaken as part of this program.

34. The Financial Stability Forum (FSF) in June 2000 designated Panama as a jurisdiction seen to have a low quality of financial sector supervision and/or not adhering to international standards. That view was based on a 1999 survey of supervisors and regulators in 27 onshore jurisdictions that in all considered 42 offshore financial centers. The authorities expressed disappointment with the FSF's characterization of Panama's supervisory and regulatory regime. They believe that it does not recognize the substantial progress achieved with regulatory reform since the establishment of the Superintendency in 1998. The staff agreed that progress had been substantial, particularly as regards the regulatory framework. However, the staff stressed the need for the rigorous implementation of the regulatory framework.

35. The authorities are reviewing the supervisory and regulatory framework for finance companies.[15] The consequences for the economy of possible difficulties in this sector are mitigated by these institutions' financial structure—they do not take deposits—and by the fact that their lending is generally well secured. The Ministry of Commerce and Industry oversees the finance company sector, but lacks adequate resources to carry out meaningful supervision. Legislation that would make significant changes to industry practices is pending in the assembly. However, the staff argued in favor of a more thorough review of the issues before proceeding with new legislation.

D. External Issues

36. The substantial role played recently by bank capital inflows (a decline in the net foreign assets of general license banks) in financing the current account deficit reflects mainly a growth in domestic bank private sector lending opportunities that exceeds the growth in the deposit base. The domestic lending of the general license banks has been growing faster than their international lending for some years because of the increased demand for finance for local investment opportunities. In particular, recently privatized nonfinancial enterprises, which are closely held but not highly leveraged, have chosen to finance some local acquisitions and investment by borrowing from the banks rather than diluting their control by issuing more stock. Some wholly-owned subsidiaries of foreign multinationals were also in a position to finance expansions in their operations through bank borrowing, since they were debt-free.[16] The role of the banks in these operations reflects the fact that local bond markets are less well developed than the banking system itself, leaving banks to provide both medium and long-term finance.

37. Panama's tariff system was substantially liberalized between 1996 and 1998. Under the 1997 agreement with the WTO, a maximum tariff of 40 percent was established, which applied to all but a small number of products, mostly foodstuffs. A schedule of reductions was agreed for these products that would reduce their rates to 40 percent over 10 years.[17] Effective January 1, 1998, the previous administration lowered the maximum tariff to 15 percent for all products but automobiles (20 percent), rice (50 percent), and milk products

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[15] Finance companies, which specialize in consumer lending had aggregate assets of US$900 million, or less than 3 percent of total bank assets at end-1999. Between end-1995 and end-1999, their assets increased at an average annual rate of about 20 percent, and some companies are now showing losses.

[16] To the extent that such loans are effectively guaranteed by the parent, they are tantamount to foreign direct investment.

[17] The WTO agreement also eliminated all remaining nontariff barriers, and provided for the phased elimination of the remaining export tax (on bananas) by January 1, 1999 and the tax preferences granted to exports of nontraditional products by December 31, 2002.

(40 percent), and reduced the number of rates to five (0, 3, 5, 10 and 15 percent). When the present administration assumed office, it reversed the reductions applying to most of the foodstuff group in response to complaints from agricultural interests, and reestablished the schedule for phased reductions agreed with the WTO.[18] Subsequently, it agreed to bring tariffs on these products back down to mid-1999 levels by end-2004. The schedule implies only a very gradual decline, and the staff proposed that the authorities accelerate the pace of tariff reduction. The authorities maintain that the pace of reduction is appropriate given the need for producers to adapt to the more competitive environment that liberalization has entailed.

IV. Medium-Term Prospects

38. The medium term projections prepared by the staff and discussed with the authorities assume a gradual increase in the annual rate of growth of real GDP, from 2.3 percent in 2000 to 4 percent in 2001 and to 5 percent in the period 2002–05 (Table 3). The projected increase in the rate of output growth results from the implementation of large private sector projects in the service sector (mainly transport, telecommunications and electricity generation) that would increase somewhat the contribution of this sector to growth from the 3¾ percent observed recently, and from a recovery in primary production (mainly agriculture and fishing) and in manufacturing (which in Panama is directly related to primary production). Inflation is projected to remain low and stable. Viewed from the demand side, the external sector accounts for all of the projected growth in 2001.

39. The gap between investment and domestic saving is projected to decline in relation to GDP in 2001 and subsequent years because of increases in both public and private sector saving, and some further decline in private sector investment, which remains high by historical standards. The increase in private sector saving reflects efforts by the private sector to reconstitute its balance sheet after a period of low saving and increasing indebtedness. The increase in public sector saving results from an increase in the tax ratio and interest expenditure savings.

40. The fiscal projections are based on the assumption that the authorities eliminate the PSBR in 2001 and maintain a balanced position thereafter (Table). The combination of fiscal balance and relatively rapid economic growth would lead to a marked decline in the ratio of net public sector debt to GDP (not taking account of the Trust Fund's assets). The decline in the debt burden is expected to improve Panama's credit rating and reduce its sovereign debt

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[18] Maximum tariffs for 2000 in the schedule agreed with WTO for the affected products are the following: boneless and whole hams (83 percent), cabbages, carrots, celery and lettuce (32.5 percent), kitchen oils made from corn or sunflower (30 percent), and oils made from soy (20 percent), margarines (20 percent), milk (167 percent), onions (73 percent), poultry meat in pieces (300 percent), rice (103 percent), salt (87 percent), and tomato pastes (83 percent).

servicing costs. The increase in the tax ratio and a decline in interest expenditure would make possible increases in social expenditure without the need for economies in other programs.

Public Sector Primary and Overall Balances and Debt

(In percent of GDP)

			Est.	Projected				
	1998	1999	2000	2001	2002	2003	2004	2005
Primary balance	1.0	3.4	4.3	4.3	4.2	4.0	3.9	3.6
Overall Balance (- deficit)	-2.9	-1.4	-1.0	0.0	0.0	0.0	0.0	0.0
Gross public debt	69.7	72.8	72.3	70.1	64.4	59.0	53.8	49.1
External	58.5	58.3	57.9	55.8	51.8	48.0	44.3	41.0
Domestic	11.2	14.4	14.4	14.3	12.6	11.0	9.5	8.1
Net public debt 1/	47.2	50.7	49.8	47.2	44.3	41.6	39.0	36.6
Memorandum item:								
Trust Fund	8.7	11.4	13.8	13.2	12.4	11.6	10.9	10.2

Sources: staff and authorties' projections.

41. Staff projections of the medium-term balance of payments assume a favorable external environment. In particular, the recovery in demand for the re-exports of the ZLC is projected to continue. Net exports of the ZLC are not expected to reach their 1997 level until 2003, however. The projections also assume a recovery in agricultural exports, both because of improvements in volume and in international prices. The recovery in merchandise exports, together with maintenance of strong growth in service exports (mainly transportation and tourism) and a decline in net petroleum imports is projected to lead to a decline in the current account deficit to 5 percent of GDP in 2004. The current account deficit, which nevertheless remains high by the standards of the last decade, would be mainly financed by foreign direct investment. The contribution of bank capital inflows will decline and become negative thereafter (Table 7).

42. The medium-term balance of payments scenario is sensitive to changes in assumptions regarding growth of exports, particularly ZLC net exports, and the price of oil. If the dollar value of exports and imports of the ZLC were to grow at 3.5 percent per year in 2001–05, about half as rapidly as programmed (and about a quarter of the observed rate in 1989–1997) the external current account deficit would be 3 percent of GDP higher than the baseline deficit by the year 2005. Similarly, if the price of oil were to remain at its 2000 level, given the projected rate of growth of oil import volumes, the current account deficit would be 1½ percent of GDP higher than the baseline in 2005.

V. STAFF APPRAISAL

43. Under the program supported by the current Stand-By Arrangement, Panama has achieved substantial success with financial reform. Progress in other areas of structural reform and with fiscal consolidation has been less than hoped for, however. In particular, tax reform was postponed, the targeted deficit for the central government at end-September 2000 was not achieved, and the target for end-December 2000 is not expected to be achieved. The outturn for the PSBR for end-2000 is expected to be close to its target.

44. **Fiscal consolidation, through tax reform and other structural measures to strengthen the public finances, should remain the key objective of macroeconomic policy**. Easing the public debt burden will reduce the cost of debt service, and free resources to finance social expenditure. The staff strongly supports the authorities' decision to retain the goal of reducing the PSBR to zero in 2001. Its achievement will require that the tax legislation be presented to the assembly at the earliest opportunity if undue compression of expenditure is to be avoided. There is considerable scope for broadening the base of Panama's tax system, and the base of the VAT in particular. Successful implementation of the program to upgrade the administration of the tax system will maximize the benefits of the changes to the structure of the tax system. Efficient expenditure control will require that realistic expenditure ceilings be established and the execution of the budget carefully monitored. Expenditure control will be enhanced by the extension of the SIAFPA system to include all categories of expenditure and to encompass all central government ministries and agencies.

45. Efforts to achieve the fiscal targets for 2001 will need to be complemented by measures to avoid the deterioration of the public sector accounts over time, and in particular the weakening of the finances of the social security system. The appointment of a committee to find solutions to the system's gradual financial deterioration is an important first step, but debate and dialogue need to give way to action. One measure to be considered is a reduction in the average level of pensions. As regards the public financial institutions, it will be important to follow through on plans to wind up the affairs of the BHN, and to pursue the rationalization of the BDA. A program of subsidies to deserving would-be homeowners should be transparently reflected in the budget.

46. The pace of increase in credit to the domestic economy has begun to abate, and further declines are likely and, under the circumstances, desirable. The recent progress with regulatory reform is timely. With the legal and regulatory framework in place, the Superintendency's energies are now devoted to completing its program of onsite inspections of the general and international license banks, and to upgrading the skills of its bank supervisors. The Superintendency has taken the important step of agreeing to a Module 2 assessment under the Fund's program for OFCs. This independent assessment of the banking system's regulatory framework and practices will examine the concerns raised by the FSF. Notwithstanding the successes achieved with bank regulatory reform, important regulatory weaknesses exist within the finance company sector that need to be addressed promptly.

47. Legislation passed in October 2000 broadened the applicability of anti-money laundering requirements and increased the Superintendency's powers to review and monitor compliance with "know your customer" regulations and to scrutinize suspicious transactions within banks and more recently trust companies. The staff's preliminary judgment is that the Superintendency's regulations and inspection practices in place comply with the standard set out in Core Principle 15 of the Basel Core Principles for Effective Banking Supervision.

48. The deficit on external current account has declined but remains relatively high. Panama cannot suffer a balance of payments crisis because of its monetary arrangements. At the same time, there are limits to the amount of debt that the banking system and other residents can safely assume, and the authorities need to do what they can to ensure that the investment financed by increased indebtedness, or even by foreign equity participation, is productive. The efforts of the Superintendency to improve the quality of bank supervision are vitally important, since they will reduce the likelihood of imprudent lending. The productivity of investment in Panama will also be enhanced over time by measures to improve the quality of the labor force, such as increased access to adequate schooling and clinics.

49. Panama's economic and financial statistics are generally adequate for surveillance and program purposes. Weaknesses do persist in certain areas, however. In particular, the large errors and omissions item of the balance of payments complicates the interpretation of external developments, particularly of capital account developments.

50. **Panama has made substantial progress in some areas of structural reform. The government needs, however, to strengthen its efforts to achieve fiscal consolidation.** In particular, the government should submit as soon as possible the tax legislation originally scheduled for presentation to the legislature by September 30, 2000. Second, it should prepare detailed and comprehensive ceilings on expenditure for 2001 that are consistent with a realistic revenue projection and the central government's targeted deficit of 1.5 percent. It will also be important that the government take action to deal with the problems of the BHN and to step up the pace of implementation of the SIAFPA system. Implementation of these measures would bring the authorities' policies in line with the program supported by the Fund.

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

Table 1. Panama: Structural Performance Criteria and Structural Benchmarks

Date	Commitments	Status
	Structural Performance Criteria	
June 30, 2000	Issuance of regulations by the Superintendency governing asset quality and provisioning in line with Basle standards.	Achieved. The regulations were issued by the Superintendency on June 28, 2000.
September 30, 2000	Submission of legislation to the legislative assembly to broaden significantly the base of the value-added tax by including a number of luxury goods and services and increase significantly the effective rate of tax of bank income.	Not achieved. Current plans are to submit the legislation to the assembly by April 30, 2001. The content of the legislation is still to be specified.
December 15, 2000	Presentation of legislation to close the BHN to the legislative assembly. The law will establish a deadline of 12 months following its approval for the sale of the bank's performing loans, the release of its employees and its liquidation.	Not achieved.
	Structural Benchmarks	
September 30, 2000	Material increase in the allocation of the Statistics Directorate (part of the General Audit Office) in the draft 2001 budget.	Not achieved. The budgetary allocation for the Dirección de Estadísticas may still be increased, however.
September 30, 2000	Material increase in the allocation of the General Tax Directorate in the draft 2001 budget.	Achieved.

Table 1. Panama: Structural Performance Criteria and Structural Benchmarks (Concluded)

October 31, 2000	Appointment and start of work of high-level commission to seek solutions to the CSS's problems.	The deadline was not met, although the committee was appointed on November 24, 2000.
October 31, 2000	Completion of a plan to overhaul IDAAN's billing and accounting systems, and to allow it to contract with private sector operators for services including in the areas of billing, collections, metering, and construction. Review by IDAAN of its tariffs to determine need for general increase and possible rate differentiation among clients.	Partially achieved Draft legislation would allow contracting out; efforts have been made to reduce arrears. There is no systematic plan to overhaul accounting and billing. No review of the structure of tariffs has taken place. It is uncertain whether energy cost increases will be reflected in tariff increases.
October 31, 2000	Completion of BDA external audit.	The deadline was not met. The audit is to be completed by June 2001.
December 31, 2000	Inclusion of that part of expenditure which is donor financed and that part which is carried over from previous budgets in SIAFPA.	Achieved in part, by the inclusion in the SIAFPA system of expenditure carried over from previous budgets (vigencias expiradas).
December 31, 2000	Completion of audits of at least 30 percent of the banks in the banking system (24 banks) by the Superintendency, and start of a formal review of its performance during the past 18 months with the aim of assessing the quality of its audits and the training needs of the auditor corps.	The audit goal has already been achieved. A review of the legal (inspection) and regulatory framework has been completed, and a review of the administrative aspects of regulation has begun.

Table 2. Panama: Quarterly Performance Criteria and Indicative Targets Under the Stand-by Arrangement 1/

(In millions of balboas)

	June 30, 2000			September 30, 2000			December 31, 2000			December 31, 2001		
	Prog.	Actual	Margin	Prog.	Actual	Margin	Prog.	Actual	Margin	Prog.	Actual	Margin
Ceilings on:												
Net borrowing requirement of the												
Nonfinancial public sector 2/	80.3	-46.2	126.5	92.7	86.0	6.7	100.0			0.0		
Central government 3/	171.2	145.1	26.1	238.2	293.1	-54.9	244.9			161.3		
Contracting of nonconcessional public												
and publicly guaranteed external debt 4/												
With maturities of strictly less than one year	0.0	0.0	0.0	0.0	0.0	0.0	0.0			0.0		
With maturities of one year or more	385.0	1.9	383.1	520.0	386.1	133.9	561.0			410.0		

Sources: Panamanian authorities; and Fund staff estimates.

1/ The quarterly ceilings for the Year 2000 represent performance criteria, while the ceiling for December 2001 is an indicative target. Ceilings for June 30, 2000, September 30, 2000 and December 31, 2000 are cumulative from December 31, 1999. Ceilings for December 31, 2001 are cumulative from December 31, 2000.

2/ Defined in paragraph 3 of the technical memorandum of understanding.

3/ Defined in paragraph 4 of the technical memorandum of understanding.

4/ Defined in paragraph 5 of the technical memorandum of understanding. This ceiling excludes debt contracted on concessional terms and debt contracted to carry out debt exchange operations that reduce the net present value of the external public debt.

Table 3. Panama: Selected Economic Indicators and Medium-Term Projections, 1997-2005

				2000		2001		Projections			
	1997	1998	1999	Prog.	Est.	Prog.	Rev. Proj.	2002	2003	2004	2005
				(Annual percent changes)							
Production and prices											
GDP at current prices	6.2	5.6	4.4	5.3	3.8	6.5	5.6	6.6	6.6	6.6	6.6
GDP at constant 1982 prices	4.5	4.4	3.0	3.8	2.3	4.5	4.0	5.0	5.0	5.0	5.0
GDP deflator	1.7	1.2	1.4	1.5	1.5	2.0	1.5	1.5	1.5	1.5	1.5
Consumer price index (end of year)	-0.5	1.4	1.5	2.0	2.0	1.5	1.8	1.5	1.5	1.5	1.5
Unemployment rate (urban areas, in percent) 2/	13.4	13.6	11.8	...	13.3	...	...	...	...	...	...
Domestic demand											
Public consumption at constant prices	10.0	4.6	7.1	-1.2	-5.3	8.7	-0.2	6.0	5.7	5.7	5.7
Private consumption at constant prices	6.9	11.5	1.7	2.1	2.3	1.4	-1.9	2.4	4.5	4.0	4.8
Public investment at constant prices	20.9	49.0	-22.4	-3.7	-20.9	-5.6	4.9	17.0	7.6	5.0	5.0
Private investment at constant prices	4.3	3.5	8.2	-4.8	-2.5	3.6	5.5	1.9	4.2	4.2	4.2
				(Percent of GDP)							
National accounts											
Gross domestic investment	31.1	32.8	32.6	31.3	30.2	30.7	30.4	30.4	30.4	30.4	30.4
Public sector	4.5	6.4	4.8	4.4	3.7	4.0	3.7	4.2	4.3	4.3	4.3
Private sector	26.6	26.4	27.8	26.9	26.5	26.7	26.7	26.2	26.1	26.1	26.1
Gross national saving	24.3	19.7	18.2	22.1	19.8	23.9	23.0	23.9	24.3	25.1	25.6
Public sector	3.0	2.4	2.9	2.8	2.2	4.3	3.4	3.8	3.9	3.9	3.9
Private sector	21.3	17.3	15.3	19.3	17.6	19.6	19.6	20.1	20.4	21.2	21.7
Nonfinancial public sector											
Revenue and grants	28.7	28.3	29.2	28.9	28.7	29.5	29.2	29.7	29.9	30.0	30.1
Expenditure	28.9	31.3	30.7	29.9	29.8	29.5	29.2	29.7	29.9	30.0	30.1
Current	24.5	25.0	25.9	25.5	26.1	25.4	25.5	25.6	25.7	25.8	25.9
Capital	4.3	6.4	4.8	4.4	3.7	4.0	3.7	4.2	4.3	4.3	4.3
Overall balance	-0.2	-3.0	-1.4	-1.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
External current account balance 3/ (including official transfers)	-6.8	-13.1	-14.4	-9.2	-10.4	-6.8	-7.4	-6.5	-6.1	-5.3	-4.8
Gross public debt 4/											
Public debt	71.9	69.7	72.8	70.0	72.3	65.8	70.1	64.4	59.0	53.8	49.1
External	57.8	58.5	58.3	57.1	57.9	53.6	55.8	51.8	48.0	44.3	41.0
Domestic	14.1	11.2	14.4	12.9	14.4	12.2	14.3	12.6	11.0	9.5	8.1

Table 3. Panama: Selected Economic Indicators and Medium-Term Projections, 1997-2005 (Concluded)

	1997	1998	1999	2000 Prog.	2000 Est.	2001 Prog.	2001 Rev. Proj.	Projections 2002	2003	2004	2005
	(12-month change in relation to liabilities to the private sector at the beginning of the period)										
Money and credit											
Net domestic assets of the banking system	10.3	17.8	18.0	5.4	12.0	7.2	9.5	9.4	9.4	9.3	9.2
Public sector (net)	-2.0	-1.2	-0.7	-1.9	-0.1	0.5	0.2	0.5	0.5	0.6	0.5
Private sector	12.5	21.9	17.4	10.2	13.1	7.6	9.9	9.6	9.5	9.4	9.3
Liabilities to the private sector	15.4	12.4	9.4	7.1	9.1	7.3	9.1	9.4	9.5	9.6	9.8
Interest rates (period average)											
Commercial lending rate (one-year)	10.2	9.9	9.9	...	10.0	...	...	...	...	...	...
Deposit rate (six-month)	6.2	6.1	6.2	...	6.4	...	...	...	...	...	...
	(In millions of U.S. dollars)										
Overall balance of payments	142.6	-193.5	-90.9	95.4	94.0	0.1	-73.2	-14.4	21.4	45.2	93.7
Net foreign assets of the National Bank of Panama	1,082.3	906.3	824.5	858.6	890.5	842.4	804.6	804.6	817.4	850.8	936.5
Memorandum item:											
GDP at current prices (millions of balboas)	8,658	9,144	9,545	10,056	9,911	10,748	10,462	11,150	11,883	12,664	13,497

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

1/ Refers to program projections as presented in EBS/98/208.
2/ Data generally refer to August observations.
3/ Includes current official transfers.
4/ Non-financial public sector.

Table 4. Panama: Summary Operations of the Nonfinancial Public Sector 1/

	1996	1997	1998 Actual	1999 Actual	2000 Approved Budget 2/	2000 Program Proj.	2000 Revised Proj.	2001 Draft Budget	2001 Normative Proj.
			(In millions of balboas)						
Revenue and grants	**2,275.7**	**2,484.4**	**2,586.4**	**2,787.7**	**3,156.3**	**2,919.9**	**2,846.8**	**3,316.0**	**3,055.6**
Revenue	2,271.2	2,413.8	2,529.1	2,782.7	3,131.9	2,902.2	2,842.6	3,299.1	3,051.4
Current	2,252.6	2,383.7	2,502.0	2,742.3	3,093.5	2,859.6	2,812.2	3,226.0	3,019.2
Central government	1,325.9	1,447.4	1,582.5	1,878.3	1,875.2	1,933.3	1,833.6	2,170.1	2,014.7
Social security agency	613.5	613.0	666.8	689.9	902.3	726.8	782.4	798.9	826.2
Public enterprises operating balance	293.5	240.4	129.2	123.5	96.0	108.3	84.9	120.0	93.5
Other 3/	19.7	82.9	123.4	50.6	220.1	91.2	111.3	137.0	84.8
Capital	18.6	30.1	27.1	40.4	38.4	42.6	30.4	73.1	32.2
Grants	4.6	70.6	57.3	5.0	24.4	17.7	4.2	16.9	4.2
Expenditure	**2,242.1**	**2,509.0**	**2,854.1**	**2,925.8**	**3,579.6**	**3,019.8**	**2,956.8**	**3,646.7**	**3,055.6**
Current 4/	1,928.7	2,123.6	2,273.0	2,468.6	2,823.7	2,573.0	2,589.6	2,791.9	2,664.8
Central government	1,079.6	1,207.3	1,317.4	1,482.2	1,711.4	1,533.8	1,538.0	1,613.9	1,554.3
Social security agency	725.5	780.7	815.2	846.0	922.7	891.3	906.4	1,024.0	957.1
Other	123.5	135.7	140.4	140.4	189.6	147.9	145.2	154.0	153.4
Capital	313.4	385.4	581.1	457.2	755.8	446.8	367.2	854.8	390.8
Savings 5/	323.9	260.1	224.0	273.7	269.7	286.6	222.6	434.1	354.4
Overall balance	**33.6**	**-24.6**	**-267.7**	**-138.1**	**-423.3**	**-100.0**	**-110.0**	**-330.7**	**0.0**
Financing (net)	**-33.6**	**24.6**	**267.7**	**138.1**	**423.3**	**100.0**	**110.0**	**330.7**	**0.0**
External	-145.9	190.3	454.4	254.9	275.5	221.6	128.6	...	-9.2
Domestic	117.7	-161.3	-162.4	-79.1	147.8	-111.7	5.2	...	29.2
Privatization	72.6	671.7	260.5	241.7	69.4	1.1	1.1	...	1.0
Trust fund 6/	-78.0	-676.1	-284.8	-279.4	-69.4	-11.0	-24.9	...	-21.0
			(In percent of GDP)						
Revenue and grants	**27.9**	**28.7**	**28.3**	**29.2**	**31.3**	**28.9**	**28.7**	**31.7**	**29.2**
Revenue	27.9	27.9	27.7	29.2	31.0	28.8	28.7	**31.5**	29.2
Current	27.6	27.5	27.4	28.7	30.7	28.3	28.4	**30.8**	28.9
Central government	16.3	16.7	17.3	19.7	18.6	19.2	18.5	**20.7**	19.3
Social security agency	7.5	7.1	7.3	7.2	8.9	7.2	7.9	**7.6**	7.9
Public enterprises operating balance	3.6	2.8	1.4	1.3	1.0	1.1	0.9	**1.1**	0.9
Other 3/	0.2	1.0	1.3	0.5	2.2	0.9	1.1	**1.3**	0.8
Capital	0.2	0.3	0.3	0.4	0.4	0.4	0.3	**0.7**	0.3
Grants	0.1	0.8	0.6	0.1	0.2	0.2	0.0	**0.2**	0.0
Expenditure	**27.5**	**29.0**	**31.2**	**30.7**	**35.5**	**29.9**	**29.8**	**34.9**	**29.2**
Current 4/	23.7	24.5	24.9	25.9	28.0	25.5	26.1	26.7	25.5
Central government	13.2	13.9	14.4	15.5	17.0	15.2	15.5	15.4	14.9
Social security agency	8.9	9.0	8.9	8.9	9.1	8.8	9.1	9.8	9.1
Other	1.5	1.6	1.5	1.5	1.9	1.5	1.5	1.5	1.5
Capital	3.8	4.5	6.4	4.8	7.5	4.4	3.7	8.2	3.7
Savings 5/	**4.0**	**3.0**	**2.4**	**2.9**	**2.7**	**2.8**	**2.2**	4.1	**3.4**
Overall balance	**0.4**	**-0.3**	**-2.9**	**-1.4**	**-4.2**	**-1.0**	**-1.1**	**-3.2**	**0.0**
Financing (net)	**-0.4**	**0.3**	**2.9**	**1.4**	**4.2**	**1.0**	**1.1**	**3.2**	**0.0**
External	-1.8	2.2	5.0	2.7	2.7	2.2	1.3	...	-0.1
Domestic	1.4	-1.9	-1.8	-0.8	1.5	-1.1	0.1	...	0.3
Privatization	0.9	7.8	2.8	2.5	0.7	0.0	0.0	...	0.0
Trust Fund 6/	-1.0	-7.8	-3.1	-2.9	-0.7	-0.1	-0.3	...	-0.2
Memorandum item:									
Net public debt/GDP	...	...	47.2	50.7	...	...	49.8	...	47.2

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

1/ Excludes the operations of the Panama Canal Authority (PCA) which reverted to Panama on December 31, 1999.
2/ Includes US$200 million in social investment expenditures, which were incorporated in a supplementary appropriations bill.
3/ Includes the balances of the nonconsolidated public sector and revenue of the decentralized agencies.
4/ Refers to general government.
5/ Current revenue less current expenditure.
6/ The Trust Fund for Development invests divestment proceeds and part of the revenue of the *Autoridad de la Región Interoceanica (ARI)abroad and* transfers its investment income to the central government.

Table 5. Panama: Summary Operations of the Central Government

	1996	1997	1998 Actual	1999 Actual	2000 Approved Budget 2/	2000 Program Proj.	2000 Revised Proj.	2001 Draft Budget	2001 Normative Projection
	(In millions of balboas)								
Revenue and grants	**1,549.2**	**1,671.0**	**1,767.3**	**1,945.4**	**2,037.0**	**2,026.0**	**1,911.5**	**2,283.6**	**2,097.1**
Current revenue	1,543.1	1,597.9	1,708.0	1,937.2	1,990.4	2,004.9	1,906.2	2,246.6	2,091.8
Tax	984.9	1,043.5	1,104.1	1,211.2	1,235.3	1,225.3	1,137.1	1,415.2	1,272.9
Nontax	558.2	554.4	603.9	726.0	755.1	779.6	769.1	831.4	818.9
Capital revenue	1.5	2.5	2.0	3.2	22.2	3.4	1.1	20.1	1.1
Grants	4.6	70.6	57.3	5.0	24.4	17.7	4.2	16.9	4.2
Expenditure	**1,535.1**	**1,675.2**	**2,228.6**	**2,173.0**	**2,543.0**	**2,270.8**	**2,241.6**	**2,640.1**	**2,258.4**
Current	1,327.1	1,480.5	1,798.0	1,828.1	1,929.0	1,898.0	1,937.1	2,039.1	1,975.8
Wages and salaries	568.5	592.4	636.8	685.0	677.0	647.2	637.0	715.0	652.7
Goods and services	121.4	194.4	191.2	210.7	220.2	222.0	228.4	201.0	226.2
Pensions and transfers	385.7	394.1	648.1	485.1	453.4	511.0	542.7	592.6	573.0
Interest	251.4	299.7	321.9	447.3	578.4	517.8	529.0	530.5	523.9
Domestic	28.6	32.9	42.3	83.2	206.1	112.0	124.4	112.0	116.9
External	222.8	266.8	279.5	364.1	372.3	405.8	404.6	418.5	407.0
Capital and on lending	208.1	194.7	430.6	344.9	614.0	372.8	304.5	601.0	282.6
Savings 3/	**216.0**	**117.4**	**-90.1**	**109.1**	**61.4**	**106.8**	**-30.9**	**207.5**	**116.0**
Overall balance	**14.0**	**-4.2**	**-461.3**	**-227.6**	**-506.1**	**-244.9**	**-330.1**	**-356.5**	**-161.3**
Financing (net)	**-14.0**	**4.2**	**461.3**	**227.6**	**506.1**	**244.9**	**330.1**	**356.5**	**161.3**
External	-96.9	240.1	471.8	264.2	269.9	242.7	141.6	...	-6.4
Domestic	88.3	-235.9	-10.5	-36.6	236.2	2.2	188.5	...	167.7
Privatization	72.6	671.6	260.5	241.7	0.0	1.1	1.1	...	1.0
Trust fund	-78.0	-671.6	-260.5	-241.7	0.0	-1.1	-1.1	...	-1.0
	(In percent of GDP)								
Revenue and grants	**19.0**	**19.3**	**19.3**	**20.4**	**20.2**	**20.1**	**19.3**	**21.8**	**20.0**
Current revenue	18.9	18.5	18.7	20.3	19.7	19.9	19.2	21.5	20.0
Tax	12.1	12.1	12.1	12.7	12.2	12.1	11.5	13.5	12.2
Nontax	6.8	6.4	6.6	7.6	7.5	7.7	7.8	7.9	7.8
Capital revenue	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.0
Grants	0.1	0.8	0.6	0.1	0.2	0.2	0.0	0.2	0.0
Total expenditure	**18.8**	**19.3**	**24.4**	**22.8**	**25.2**	**22.5**	**22.6**	**25.2**	**21.6**
Current	16.3	17.1	19.7	19.2	19.1	18.8	19.5	19.5	18.9
Capital and on lending	2.6	2.2	4.7	3.6	6.1	3.7	3.1	5.7	2.7
Savings 3/	**2.6**	**1.4**	**-1.0**	**1.1**	**0.6**	**1.1**	**-0.3**	**2.0**	**1.1**
Overall balance	**0.2**	**0.0**	**-5.0**	**-2.4**	**-5.0**	**-2.4**	**-3.3**	**-3.4**	**-1.5**
Financing (net)	**-0.2**	**0.0**	**5.0**	**2.4**	**5.0**	**2.4**	**3.3**	**3.4**	**1.5**
External	-1.2	2.8	5.2	2.8	2.7	2.4	1.4	...	-0.1
Domestic	1.1	-2.7	-0.1	-0.4	2.3	0.0	1.9	...	1.6
Privatization	0.9	7.8	2.8	2.5	0.0	0.0	0.0	...	0.0
Trust fund	-1.0	-7.8	-2.8	-2.5	0.0	0.0	0.0	...	0.0
Memorandum item: (in millions of balboas)									
Nominal GDP (market prices)	8,151.1	8,657.5	9,143.8	9,545.4	10,088.7	10,088.7	9,910.7	10,462.0	10,462.0

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

1/ Refers to program projections as presented in EBS/98/208.

2/ Includes US$200 million in social investment expenditures, which the government has announced will be incorporated in a new "modified" budget law.

3/ Current revenue less current expenditure.

Table 6. Panama: Monetary Accounts

	Dec. 1996	Dec. 1997	Dec. 1998	Sept. 1999	Dec. 1999	Prog. Dec. 2000	Rev. Dec. 2000	Prog. Sept. 2000	Sept. 2000
	(In millions of balboas: end of period)								
Net foreign assets	**2,405.8**	**2,784.8**	**2,313.6**	**1,697.2**	**1,295.6**	**1,469.5**	**994.3**	**1,415.6**	**992.1**
Net international reserves	2,488.6	2,859.0	2,378.7	1,760.2	1,357.8	1,523.3	1,045.6	1,472.4	1,048.8
National Bank of Panama	952.1	1,082.3	906.3	875.2	824.5	858.6	890.5	810.1	890.5
Rest of banking system	1,536.5	1,776.7	1,472.4	885.0	533.2	664.6	155.2	662.2	158.3
Long-term foreign liabilities	82.9	74.2	65.0	63.1	62.2	53.8	51.4	56.8	56.7
National Bank of Panama	73.8	66.1	58.0	56.8	56.2	47.8	51.4	50.8	51.4
Rest of banking system	9.1	8.1	7.0	6.3	6.0	6.0	0.0	6.0	5.3
Net domestic assets	**5,104.4**	**5,880.2**	**7,423.0**	**8,657.2**	**9,179.2**	**9,746.7**	**10,433.0**	**9,526.9**	**10,186.1**
Public sector (net)	-857.7	-1,007.4	-1,112.3	-1,098.7	-1,180.9	-1,376.1	-1,191.7	-1,443.3	-1,244.7
Central government (net)	688.1	555.8	515.2	539.9	457.3	294.3	462.7	216.4	410.7
Rest of the public sector (net)	-1,545.7	-1,563.2	-1,627.4	-1,638.6	-1,638.2	-1,670.4	-1,654.4	-1,659.7	-1,655.4
Private sector	7,008.8	7,948.1	9,843.6	11,118.1	11,536.6	12,603.4	12,913.8	12,303.4	12,682.0
Other assets (net)	-1,046.8	-1,060.5	-1,308.4	-1,362.2	-1,176.6	-1,480.6	-1,289.2	-1,333.3	-1,251.2
Liabilities to domestic private sector	**7,510.2**	**8,665.0**	**9,736.7**	**10,354.4**	**10,474.7**	**11,216.3**	**11,427.3**	**10,941.9**	**11,178.3**
Total deposits	**5,849.4**	**6,719.9**	**7,565.2**	**8,089.6**	**8,217.0**	**8,830.1**	**8,853.5**	**8,578.1**	**8,691.6**
Demand deposits	833.2	995.2	1,131.4	1,053.3	1,165.3	1,337.7	955.5	1,173.0	971.8
Time deposits	3,903.6	4,454.1	4,953.2	5,401.9	5,391.4	5,694.2	6,002.5	5,651.7	6,064.8
Savings deposits	1,112.6	1,270.7	1,480.5	1,634.4	1,660.4	1,798.2	1,895.5	1,753.5	1,655.0
Private capital and surplus	1,660.8	1,945.1	2,171.5	2,264.8	2,257.7	2,386.2	2,573.8	2,363.8	2,486.7
	(12-month change in relation to liabilities to the private sector at the beginning of the period)								
Net foreign assets	3.1	5.0	-5.4	-3.3	-10.5	1.7	-2.9	-2.6	-6.8
Net domestic assets	5.0	10.3	17.8	15.5	18.0	5.4	12.0	8.4	14.8
Public sector (net)	2.5	-2.0	-1.2	-1.3	-0.7	-1.9	-0.1	-3.3	-1.4
Private sector	7.0	12.5	21.9	17.0	17.4	10.2	13.1	11.4	15.1
Other assets (net)	-4.5	-0.2	-2.9	-0.2	1.4	-2.9	-1.1	0.3	1.1
Liabilities to the private sector	8.1	15.4	12.4	12.2	7.6	7.1	9.1	5.7	8.0
Memorandum items									
Total deposits / GDP (in percent)	71.8	77.6	82.7	84.7	86.1	87.5	89.3	..	..
Percentage change in total deposits over previous 12 month-period	6.0	14.9	12.6	12.2	8.6	7.5	7.7	6.0	7.4
Percentage change in net domestic assets	7.3	15.2	26.2	13.2	23.7	6.2	13.7	11.4	17.7
Credit to private sector / GDP (in percent)	86.0	91.8	107.7	116.5	120.9	124.9	130.3	..	..
Percentage change in private sector credit over previous 12 month-period	7.5	13.4	23.8	16.4	17.2	9.2	11.9	10.7	14.1
Demand deposits/total deposits (in percent)	14.2	14.8	15.0	13.0	14.2	15.1	10.8	13.7	11.2

Source: National Bank of Panama; Panama Banking Commission; and Savings Bank.

Table 7. Panama: Medium-Term Balance of Payments

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

			Prel.	Prog.	Rev Proj	Projections				
	1997	1998	1999	2000	2000	2001	2002	2003	2004	2005
Current account	**-588.4**	**-1,202.2**	**-1,377.5**	**-924.4**	**-1,027.8**	**-773.6**	**-724.8**	**-719.2**	**-667.1**	**-652.5**
Trade balance	-685.2	-1,361.6	-1,416.5	-1,020.2	-1,224.5	-987.0	-890.8	-899.6	-875.3	-893.4
Exports, f.o.b.	843.9	862.5	864.6	904.0	1,011.0	1,050.7	1,118.8	1,196.7	1,277.9	1,374.2
Nonpetroleum exports	682.7	735.3	656.9	685.4	772.0	825.1	896.1	959.3	1,024.9	1,104.5
Petroleum exports	161.2	128.9	207.7	218.6	239.1	224.8	222.8	237.4	253.0	269.7
Imports, f.o.b.	-2,462.2	-2,751.9	-2,858.4	-2,614.1	-2,836.1	-2,771.4	-2,862.5	-3,045.9	-3,238.2	-3,451.2
Nonpetroleum imports	-2,066.6	-2,460.5	-2,442.0	-2,211.0	-2,350.0	-2,333.9	-2,447.4	-2,608.3	-2,771.9	-2,954.2
Petroleum imports	-395.6	-291.4	-416.4	-403.1	-486.1	-437.5	-415.1	-437.6	-466.3	-497.0
Colon Free Zone, net	933.1	527.8	577.3	689.9	600.5	733.8	852.9	949.6	1,084.9	1,183.6
Services, net	357.8	524.9	615.4	574.0	677.6	755.8	780.8	814.6	857.2	898.0
Travel	210.4	202.6	202.7	208.8	286.2	302.1	321.9	343.1	370.5	394.9
Transportation	47.8	226.1	294.9	319.6	312.4	370.3	393.7	402.7	413.4	425.6
Other services, net	99.6	96.2	117.8	42.5	79.1	83.5	65.1	68.8	73.3	77.4
Income, net	-411.6	-524.5	-740.6	-632.8	-645.6	-696.9	-771.5	-792.4	-808.9	-821.4
Of which:										
Nonfinancial public sector interest payments	-282.3	-301.9	-368.0	-410.0	-410.2	-408.9	-462.9	-461.9	-457.0	-457.0
Current transfers, net	150.6	159.0	164.2	154.7	164.8	154.5	156.7	158.2	159.9	173.6
Of which:										
Official, net	61.5	68.9	70.6	73.4	67.4	77.3	82.4	86.7	91.2	96.0
Capital and financial account	**432.2**	**1,257.4**	**1,225.4**	**989.9**	**1,121.8**	**700.3**	**710.4**	**740.6**	**712.3**	**746.2**
Capital account (Public sector grants)	72.7	50.9	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	359.5	1,206.5	1,417.1	989.9	1,121.8	700.3	710.4	740.6	712.3	746.2
Public sector	-564.4	-165.1	-35.5	263.0	149.9	-2.5	-83.7	-71.0	-80.2	-77.6
Nonfinancial public sector	-564.4	-160.7	-33.9	268.4	155.8	3.4	-77.8	-65.1	-74.3	-71.7
National Bank of Panama	0.0	-4.4	-1.6	-5.4	-5.9	-5.9	-5.9	-5.9	-5.9	-5.9
Private sector	923.9	1,371.6	1,257.9	726.9	971.9	702.8	794.0	811.6	792.5	823.7
Direct investment	1,255.8	1,206.1	516.9	771.6	477.0	507.5	596.7	635.4	676.4	720.2
Of which:										
Panama Canal Commision	50.0	41.3	252.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio investment	-1,045.4	434.1	-538.1	-25.2	-4.4	2.7	-30.0	-25.2	-29.3	-29.3
Of which:										
domestic banks	-743.1	533.1	-288.2	-166.1	0.0	26.3	28.0	29.8	31.8	33.9
Other private investment	715.8	-268.6	1,279.1	-19.5	498.6	192.6	227.3	201.4	145.3	132.8
Of which:										
banks	772.7	-160.5	1,476.5	-48.0	343.5	-41.8	-13.3	-5.3	-9.4	-18.6
Domestic (excluding BNP)	509.1	-229.0	1,296.0	-44.4	377.3	-38.2	-0.3	-1.8	-5.9	-15.1
Offshore	263.6	68.5	180.5	-3.6	-33.8	-3.6	-12.9	-3.5	-3.5	-3.5
Errors and Omissions	**298.8**	**-248.7**	**61.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance	**142.6**	**-193.5**	**-90.9**	**65.6**	**94.0**	**-73.2**	**-14.4**	**21.4**	**45.2**	**93.7**
Financing	**-142.6**	**193.5**	**90.9**	**-65.6**	**-94.0**	**73.3**	**14.4**	**-21.4**	**-45.2**	**-93.7**
Net foreign assets of the National Bank of Panama	-130.2	176.0	81.8	-34.1	-66.0	85.9	0.0	-12.8	-33.4	-85.7
Net use of Fund credit	19.7	28.2	-23.2	-53.8	-52.6	-33.8	-8.0	-8.6	-11.8	-8.0
Rescheduling	35.7	19.1	32.3	22.3	24.6	21.2	22.4	0.0	0.0	0.0
Change in arrears	-67.8	-29.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Current account/GDP	**-6.8**	**-13.1**	**-14.4**	**-9.2**	**-10.4**	**-7.4**	**-6.5**	**-6.1**	**-5.3**	**-4.8**

Source: Panamanián authorities; and Fund staff estimates.

Table 8. Panama: Public and Publicly Guaranteed External Debt 1/

	1997	1998	Prel. 1999	Prog. 2000	Proj. 2000	Projected 2001	2002	2003	2004	2005
Stock of total debt (in millions of U.S. dollars) 1/	5,081.1	5,415.0	5,632.7	5,818.1	5,798.3	5,888.9	5,825.0	5,748.3	5,662.2	5,532.9
Of which:										
IMF	142.2	170.4	148.7	94.9	89.7	56.0	47.9	39.3	27.5	19.5
Other multilateral institutions	791.2	958.8	1,018.1	1,086.8	1,009.5	1,121.1	1,153.6	1,164.0	1,164.2	1,162.2
Stock of total debt in percent of GDP	58.7	59.2	59.0	57.7	58.5	56.3	52.2	48.4	44.7	41.0
Stock of total debt in percent of exports of goods and services 2/	148.4	175.4	178.2	170.5	171.9	159.7	146.6	135.1	123.5	113.1
Debt service (in millions of U.S. dollars) 3/	1,509.7	663.2	775.5	679.6	803.6	990.2	1,192.4	687.9	701.0	701.0
Of which:	33.6	21.4	29.8	59.1	56.8	36.9	10.2	10.4	13.3	9.4
IMF										
Other multilateral institutions	105.6	98.8	126.8	117.7	123.8	142.5	209.3	223.9	230.5	232.7
Debt service in percent of exports of goods and services 2/	44.1	21.5	24.5	19.9	23.8	26.8	30.0	16.2	15.3	14.3
Of which:										
IMF	1.0	0.7	0.9	1.7	1.7	1.0	0.3	0.2	0.3	0.2
Other multilateral institutions	3.1	3.2	4.0	3.5	3.7	3.9	5.3	5.3	5.0	4.8
Debt service in percent of central government revenue 3/	90.3	37.5	39.9	32.4	38.4	43.8	49.1	26.3	24.9	23.4
Of which:										
IMF	2.0	1.2	1.5	2.8	2.7	1.6	0.4	0.4	0.5	0.3
Other multilateral institutions	6.3	5.6	6.5	5.6	5.9	6.3	8.6	8.6	8.2	7.8
Debt service in percent of public sector current expenditure	71.1	29.0	31.4	26.9	31.9	36.3	41.1	22.1	20.9	19.6
IMF debt service in percent of total debt service 3/	2.2	3.2	3.8	8.7	7.1	3.7	0.9	1.5	1.9	1.3

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

1/ All stock figures are end of year data.

2/ Includes net exports of the ZLC.

3/ In 1997, the increase reflects commercial debt restructuring involving retirement of Brady bonds. In the year 2002, the Eurobond of US$500 million, which was issued in 1997 February 1997 in connection with the retirement of Brady bonds, is assumed to be repaid with the proceeds of a bond issue of equal magnitude in that year.

Table 9. Panama: International Investment Position, 1996-1999

(In millions of U.S. dollars)

	1996	1997	1998	1999
Assets	**24,916.3**	**27,247.6**	**26,062.1**	**24,516.0**
Portfolio investment	1,401.4	2,437.7	2,000.0	2,542.1
Equity securities	17.8	18.6	28.3	28.3
Debt securities	1,383.6	2,419.1	1,971.7	2,513.8
Other investment	22,436.3	23,052.5	22,407.4	20,135.3
General government	63.9	222.6	720.3	471.2
Banks	20,247.8	20,505.0	19,218.7	17,231.6
Other sectors	2,124.6	2,324.9	2,468.4	2,432.3
Reserve assets	1,078.6	1,757.4	1,654.7	1,838.6
Liabilities	**30,101.5**	**32,521.9**	**32,634.4**	**32,320.8**
Direct investment in representative economy	3,655.0	4,910.8	6,136.8	6,159.1
Portfolio investment	3,593.9	3,528.5	3,734.1	3,948.2
Debt securities	3,593.9	3,528.5	3,734.1	3,948.2
Other investment	22,852.6	24,082.6	22,763.5	22,213.5
Monetary authorities	290.1	309.9	343.6	314.8
General government	1,086.8	1,178.0	1,339.3	1,398.1
Banks other sectors	19,905.6	20,935.5	19,488.7	18,978.1
Other sectors	1,570.1	1,659.2	1,591.9	1,522.5

Source: International Financial Statistics.

Table 10. Panama: Indicators of the External Position and Financial Vulnerability

(In percent of GDP, unless otherwise indicated)

	1996	1997	1998	1999	Prog. 2000	Projections 2000	2001	2002
Financial Indicators								
Net public sector debt 1/	53.0	47.5	47.2	50.2	48.6			
12-month percent change in broad money 2/	6.0	14.9	12.6	8.5	7.7	7.7	10.2	10.2
12-month percent change in private sector credit	7.5	13.4	23.8	17.2	9.4	11.9	8.8	8.5
Deposit rate 6-month	6.4	6.2	6.1	5.7	...	...	...	...
External Indicators								
12-month percent change in exports	-0.5	13.9	2.4	-0.5	5.1	16.9	3.0	4.5
12-month percent change in imports	12.6	9.6	11.2	4.1	-8.2	-0.8	-2.4	2.8
Current account balance	-4.0	-6.8	-13.1	-14.4	-9.2	-10.4	-6.9	-6.1
Capital and financial account balance	8.9	12.7	14.3	15.0	9.5	11.0	6.1	6.1
Of which								
Private sector direct investment	3.5	13.4	13.2	5.4	7.2	4.8	4.9	5.7
Public sector external debt	62.7	58.7	59.2	59.0	57.7	58.5	56.3	52.2
Total public external debt (in percent of exports of goods and services)	162.1	148.4	175.4	178.2	170.5	171.9	159.7	146.6
External interest payments (in percent of exports of goods and services)	7.7	8.2	9.8	11.6	12.1	12.2	11.1	11.7
Exchange rate (per US$)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
12-month REER percent deppreciation (-)	0.3	0.9	-1.5	4.4	...	...	...	...
Memorandum items								
Gross international reserves (in US$) 3/	1,016.5	1,148.4	964.3	880.7	903.1	941.9	1,049.4	1,049.7
Reserves in months of imports 4/	4.1	5.0	5.0	4.2	4.0	3.7	4.1	4.4
Broad money to net international reserves 5/	6.1	6.2	8.3	8.3	10.3	9.2	12.1	13.4
Nominal GDP (in millions of Balboas)	8,151	8,658	9,144	9,545	10,089	9,911	10,462	11,150
Exports of goods and services (millions of US$) 6/	3,163	3,425	3,088	3,161	3,412	3,373	3,688	3,973

Sources: Ministry of Economy and Finances of Panama and staff estimations.

1/ Net debt of the nonfinancial public sector excluding the Trust Fund for Development.

2/ Corresponds to total private sector deposits in the banking system.

3/ Corresponds to foreign assets of the National Bank of Panama (a publicly owned commercial bank). They are not reserves in the conventional sense.

4/ Gross reserves are measured at the beginning of the period.

5/ At end of period.

6/ Includes net exports of the Colon Free Zone (ZLC).

Panama—Fund Relations
(As of November 30, 2000)

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

A. Financial Relations

II. **General Resources Account:**	**SDR Million**	**Percent of Quota**
Quota	206.60	100.0
Fund holdings of currency	271.83	131.6
Reserve position in Fund	11.86	5.7

III. **SDR Department:**	**SDR Million**	**Percent Allocation**
Net cumulative allocation	26.32	100.0
Holdings	1.27	4.8

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Stand-by arrangements	37.08	17.9
Extended arrangements	40.00	19.4

V. Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR million)**	**Amount Drawn (SDR million)**
Stand-by	06/30/00	03/29/02	64.00	0.00
EFF	12/10/97	06/20/00	120.00	40.00
Stand-by	11/29/95	03/31/97	84.30	84.30

VI. Projected Obligations to Fund: SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	**Forthcoming**				
	11/30/00	**2000**	**2001**	**2002**	**2003**	**2004**
Principal	0.0	8.0	26.2	6.2	6.7	6.7
Charges/Interest	0.0	0.0	4.7	3.6	3.3	2.9
Total	**0.0**	**8.0**	**30.9**	**9.8**	**10.0**	**9.6**

B. Nonfinancial Relations

VII. Exchange Rate Arrangement:

Panama uses the U.S. dollar as the primary means of payment in the local economy. Its national currency (Balboa) is issued in the form of coins only and serves as a unit of account. The exchange rate of the Balboa is fixed at B 1 per U.S. dollar. Panama has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

VIII. Last Article IV Consultation:

The 1999 Article IV consultation was concluded on February 16, 2000. Panama is on the standard 12-month consultation cycle.

IX. Technical Assistance:

a. FAD: A mission visited Panama in April and November 1992 to identify areas to improve financial reporting and public expenditure control. In December 1996 a mission visited Panama to advise the authorities on procedures to improve budget monitoring.

b. MAE: A consultant visited Panama in April 1996 to advise the authorities on domestic public debt management. Follow-up assistance was provided in April 1997.

c. STA: A mission visited Panama in May 1992 to improve balance of payments statistics. In April 1996 a staff member of STA temporarily joined the Article IV/UFR mission to resolve methodological issues in the compilation of Panama's national accounts; follow-up technical assistance was provided in July 1997. A mission reviewed the methodology of the compilation of the balance of payments in September 1996. In July 1997 a long-term advisor began to work with the authorities on further improvements in balance of payments and debt statistics and completed this assignment in early 1999. The authorities published revised balance of payments data for 1989–98 in March 1999. In May 1999 a mission visited Panama to assist in the preparation of metadata.

X. Resident Representative:

None.

Panama—Statistical Issues

Although Panama provides the core statistics to the Fund, a general concern with Panama's statistics is the lack of timely reporting. Key information on the financing of the budget is transmitted to the Fund with a lag of six to eight weeks. The authorities began to publish an advance release calendar of their economic statistics in April 1998. In addition, they have begun to implement an improved revision policy that allows for periodic revisions of economic statistics based on improved source data and methods. Significant improvements have been made to the national accounts and the balance of payments, and programs have been initiated to improve government finance statistics through the implementation of a new integrated financial administration system (SIAFPA). The Superintendency of Banks is reviewing data collection and processing of monetary statistics and has begun to disseminate data on its web page.

Real sector

a. **Current status**: The authorities have broadened the coverage of the national accounts statistics and improved the methodology of compilation. The accounts now include resident banks and enterprises operating in the Colon Free Zone (ZLC) by strictly applying the residency criterion of the balance of payments and national accounts recommendations. Financial services are now properly allocated to users, including exports. Constant price series were revised to reflect 1982 weights (the previous series used 1970) and the data were harmonized with the balance of payments. The revised data are available for the period 1980–98. The weights underlying the consumer price index (CPI) were derived from a household budget survey conducted in 1983/84. Consumer price data are available through November 2000.

b. **Pending issues**: National accounts technical assistance missions in 1996 and 1997 noted problems in the methodology used to compile value-added for financial services and in the source data used to measure transactions involving enterprises in the ZLC. In addition, the development of a supply-use framework was recommended. As noted above, the authorities are continuing work in these areas and are making progress on financial services and coverage of the Colón Free Zone. Despite recent improvements, preliminary estimates of real GDP volume remain unreliable and untimely, in part because of delays in data collection and the lack of skilled national accountants in the statistical unit. In addition, the Directorate of Statistics has just initiated an effort to update the base year for the national accounts from 1982 to 1996 and produce quarterly GDP data.

c. **Technical assistance**: The United Nations Economic Commission for Latin America and the Caribbean is supporting the development of a supply-use table. A national accounts mission from the Fund's Statistics Department is scheduled to visit Panama in FY 2001 to assist with the improvement of source data for national accounts statistics.

Government finances

a. **Current status**: Data on central government finances are provided on a cash and an accrual basis. Data on the public enterprises and agencies are compiled only on a cash basis. Monthly and quarterly data for the operations of the budgetary central government are currently available through September 2000.

b. **Pending issues**: Monitoring of public sector financial developments would be facilitated if data on public enterprises and agencies were provided on an accrual basis and were more timely, if the consistency of information on intrapublic sector transfers were improved, and if the coverage of the investment program were made complete. The authorities have recently begun to compile the finances of the public sector on a consolidated basis and to reconcile the public sector balance with its financing. The implementation of a more centralized and complete data collection system (SIAFPA) is currently ongoing and began, during the preparation of the 1999 Budget, with the coverage of central government expenditures. A new Director of SIAFPA was appointed in the Ministry of Economy and Finance in December 1999. The recently established Treasurer's function in the Ministry of Finance in conjunction with the electronic linkage of all public sector entities, when fully operational, is expected to improve the timeliness of public finance statistics. In addition to broadening SIAFPA's scope of coverage, there is a need to address the issue of unrecorded expenditures, which have resulted in persistent and significant discrepancies in the measurement of fiscal performance from above and below the line. In this regard, the authorities have indicated that they could seek additional technical assistance with public expenditure management and in the operation of some Treasury functions from the Fund.

c. **Technical assistance**: A government finance statistics mission is expected to take place when resources are available. The mission will focus on developing financing and debt indicators and on improving systems for reporting data for publication in IFS.

Monetary accounts

a. **Current status**: Provision of data by the monetary authorities has been regular and reasonably current. These data are available through September 2000. Data on the operations of the commercial banks are prepared by the Superintendency of Banks with a lag of one to two months, although they are reported for publication in *IFS* with somewhat longer lags. Problems concerning information on private banks' holdings of government securities are being addressed.

b. **Pending issues**: Corrections to classifications, following privatizations occur with a lag in the accounts of the Banco Nacional de Panama. There are no consistent data prepared on the financial positions of the National Mortgage Bank and the Agricultural Development Bank.

c. **Technical assistance**: The new Superintendency of Banks may require technical assistance to improve data collection and compilation procedures in the medium term.

Balance of payments

a. **Current status**: An STA technical assistance mission in September 1996 identified problems in compilation procedures and systems, including misclassification of external debt transactions, untimely collection of data, and poor quality control procedures, and recommended a long-term technical assistance program to address these issues. To implement this program, a series of technical assistance missions took place in July 1997, October–December 1997, and April–June 1998. This technical assistance has led to significant improvements in the quality and timeliness of external sector statistics, including through periodic reconciliation of external debt statistics discrepancies with multilateral lenders. International Investment Position data for 1996–99 are now compiled, and the balance of payments statistics are mostly prepared according to the guidelines of the fifth edition of the Balance of Payments Manual (BPM5) and are now available quarterly with a six month lag. The most recent data on balance of payments statistics pertains to June 2000.

b. **Pending issues**: Follow-up technical assistance has led to further statistical revisions for the 1989–98 balance of payments. But transactions regarding the transfer of the Canal and the Canal Area have only been partially recorded because of asset valuation problems. Also, data are not yet available on nonfinancial private sector debt or on transactions involving financial derivatives. Furthermore, the January–March 1999 mission concluded that a major shortcoming stems from the serious delay in the collection and validation of foreign direct investment and other financial transactions of the recently privatized enterprises, and several associated services.

c. **Technical assistance**: STA began a long-term technical assistance program in July 1997 to improve the balance of payments and external debt statistics. In preparation for this program the authorities provided additional budgetary and human resources to deal with administrative problems and the lack of adequate data processing equipment in the Balance of Payments Section of the Directorate of Statistics and Census. The advisor, who visited Panama twice in 1997 and once in 1998, completed his assignment in early 1999, and the authorities published revised balance of payments data for 1989–98 in March 1999. However, the authorities have requested technical assistance to solve the problems regarding the valuation of the Canal and the Canal Area.

Panama: Core Statistical Indicators

as of December 11, 2000

	Exchange Rates	International Reserves	National Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Public Debt
Date of latest Observation	Fixed	7/00	8/00	n.a	6/00	7/00	~~11 9/00~~ 10/00	9/00	3/00	6/00	1999	6/00
Date received	n.a.	9/00	8/00	n.a.	7/00	9/00	~~11/00~~	11/00	7/00	8/00	4/00	7/00
Frequency of data	n.a.	Monthly	Monthly	n.a.	Monthly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Annually	Monthly
Frequency of reporting	n.a.	Monthly	Monthly	n.a.	Quarterly	Quarterly	Monthly	Monthly	Quarterly	Quarterly	Annually	Quarterly
Source of update	n.a.	Official Agency	Official Agency	n.a.	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency
Mode of reporting	n.a.	Fax	Fax	n.a.	Fax	Fax	E-Mail	E-Mail	E-Mail	Fax	Mission	E-Mail
Confidentiality	n.a.	Unrestricted	Used by staff only	n.a.	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Use by staff only
Frequency of publication	n.a.	Annually	Annually	n.a.	Annually	Annually	Monthly	Monthly	Quarterly	Quarterly	Annually	--

Panama—Financial Relations with the World Bank Group

(In millions of U.S. dollars)

IBRD Lending Operations by Sector as of October 31, 2000		Disbursed	Undisbursed
Total		**829.9**	**109.3**
Electric power and other energy		186.6	0.0
Agriculture		24.3	0.0
Transportation		157.1	11.6
Social sector		8.0	20.0
Urban development and housing		27.0	0.0
Water supply and sanitation		23.0	0.0
Environment		9.2	13.3
Health, population, and nutrition		12.0	17.3
Finance		21.0	0.0
Education		29.8	40.2
Public sector management		10.9	6.9
Multisector		321.0	0.0
Principal payments 1/	544.6		
Debt outstanding 2/	281.6		
Commitment during CY99	35.0		
Disbursements during CY99	17.3		
IFC commitments 3/	153.3		

Recent activities:

The last loan approved was the Basic Education II for US$35 million (September 2000), increasing the active country portfolio to eight investment projects. Preparation of the Land Administration and the Public Policy Reform TAL is underway. The next Country Assistance Strategy report for Panama is scheduled for mid-2001.

Source: The World Bank.

1/ Including amounts sold to third parties (US$9.2 million).
2/ Including valuation changes (-3.7 million).
3/ Includes only loans and equity instruments currently held.

Panama: Financial Relations with the Inter-American Development Bank

(In thousands of U.S. Dollars)

IDB Lending Operations (as of April 30, 2000)	Disbursed	Undisbursed
Ongoing Operations	(amount less cancellation)	
Agriculture	12,400	21,200
Electricity	-	79,000
Transportation	186,250	78,750
Health	31,550	10,420
Education	6,340	51,580
Urban development	5,380	19,470
Social development	25,780	63,670
Water supply and sewerage	4,230	40,770
Technical assistance	19,730	9,500
PRIBA	1,120	2,220
Environment	11,580	74,620
Financial sector	32,990	178,480
Total	337,350	629,680
IDB loans approved since 1960		
Total operations	**1,908,397**	
Cancellations	**300,482**	
Principal payments	**610,610**	
Debt outstanding as of October 31, 1999	**692,873**	
New commitments CY 2000	**3,300**	
Disbursements CY 2000	**64,000**	

Recent activities:
In CY2000, the Bank approved a US$3,3 million loan to support the creation of Science, Technology, and Innnovation Center (City of Knowledge Foundation). Also, a loan to a private concern to build and operate a thermolelectric facility, for US$59.8 million, was also approved by the Bank in CY2000. In CY 1999, the IDB approved loans for US$64.7 million, and disbursed US$53.6 million. In April 2000, the Government requested the cancellation of an undisbursed balance of US$25 million attached to private sector participation in the water copmpany (IDAAN), under the PRIBA. In CY 1999, the IDB approved a US$131 million policy loan to implement financial sector reform (SECFIN), covering reforms in banking legislation, insurance, public banks, and the stock exchange. Current undisbursed balance of SECFIN program is US$97.1 million. Expected disbursements in CY2000 are US$64 million.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/14
FOR IMMEDIATE RELEASE
February 16, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes Article IV Consultation with Panama

On January 22, 2001 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Panama.[1]

Background

Real GDP is estimated to have grown by 2.3 percent in 2000, compared with the program's rate of growth of 3.8 percent and below the 3.0 percent growth rate achieved in 1999. Large declines in construction, farming and fishing and related food-processing industries account for most of the shortfall. The service sector, which accounts for about 80 percent of GDP, is estimated to have grown by 4.7 percent in real terms in 2000. The slowdown in the growth of real GDP contributed to an increase in unemployment from 11.8 percent in August 1999 to 13.3 percent in August 2000, the rate that prevailed from 1995–98.

On the basis of estimates through the third quarter of 2000, the PSBR for that year is projected to reach US$110 million, slightly exceeding its target of US$100 million under the Stand-By Arrangement approved on June 30, 2000. The budget for 2001 approved by the legislative assembly at end-2000 implies a PSBR of 2.5 percent of GDP if fully executed. Historically, the budget has been underexecuted in Panama.

The rate of growth of bank credit to the private sector declined from 16 percent in the 12 months ending in September 1999 to 14 percent in September 2000, and is projected to decline to 12 percent at end-December. The slower growth results in part from more cautious lending in light of banks' need to conform to the new regulations for loan classification starting January 1, 2001. The short-term lending rate has remained at about 10 percent for the past 15 months, and the spread with respect to the U.S. prime rate has narrowed somewhat.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the January 22, 2001 Executive Board discussion based on the staff report.

Indicators of bank system soundness remain robust. The banking system reported an annualized return on assets of 1.5 percent through September 30, 2000, and an equity to asset ratio of 9.1 percent, up from 8.6 percent at end-1999. Panama-headquartered banks reported an equity to asset ratio of 11.7 percent, well above the regulatory minimum of 8 percent. Nonperforming loans (NPLs) were 2.9 percent of loans at end-September 2000 and provisions against loan losses amounted to 62 percent of NPLs.

The deficit on external current account is estimated to have declined from US$1.4 billion (14.4 percent of GDP) in 1999 to US$1 billion (10.4 percent of GDP) in 2000. Direct foreign investment financed about 33 percent of the current account deficit. A net decline in the foreign assets of the Panamanian banking system of about US$380 million covered most of the rest.

The real effective exchange rate appreciated by 1.6 percent in the first nine months of 2000, and has risen by 3.3 percent since December 1998. An appreciation of the nominal effective rate resulting from the appreciation of the U.S. dollar (Panama's currency) against other major currencies outweighed the impact of a favorable inflation differential. The 12-month consumer price inflation in November 2000 was 1.1 percent.

The authorities are persevering with the efforts begun in 1998 to modernize the supervisory and regulatory environment of the banking system and to put in place a system that conforms to internationally accepted standards. In the past six months, a concerted effort has been made to address concerns over the effectiveness of the anti-money-laundering regime. In October 2000 the Banking Superintendency completed a self-assessment (with Fund assistance) of its adherence to the Basel Core Principles for Effective Banking Supervision. The authorities have committed themselves to undertaking an assessment to be led by the Fund under its initiative for OFCs beginning in April 2001. The Superintendency has completed consolidated inspections of 30 of 80 general and international licensed banks, and is currently reviewing the quality of its onsite supervision and offsite monitoring.

To strengthen the anti-money laundering regime, the authorities submitted two new laws to the assembly that were promptly approved and promulgated in early October 2000. These laws broaden the concept of money-laundering crime to include the laundering of proceeds from fraud, extortion, embezzlement, corruption of public officials, kidnapping, acts of terrorism and theft or trafficking in vehicles or illegal weapons. (Previously it covered only drug-related offenses.) The new laws also facilitate both the transmittal of reports on suspicious transactions to the competent authorities and the exchange of information with other jurisdictions.

As regards other areas of reform, the submission of legislation to the assembly that would broaden substantially the base of the value added tax and increase substantially the effective rate of tax on bank income to the assembly was delayed. The submission of legislation to close the National Mortgage Bank has also been delayed, although both bills are expected to be presented to the assembly shortly. A commission has been appointed to study ways of improving the finances of the social security system, and some progress has been achieved with the expansion of the coverage of the automated financial management system.

Executive Board Assessment

Executive Directors welcomed Panama's generally good economic performance, and in particular its stable financial environment and consistently low inflation rate. Directors remarked that economic growth in 2000 had been below expectations, largely due to the impact of various temporary negative external shocks. They noted that, while substantial progress has been made with financial sector reforms, progress in other areas of structural reform was slower than expected, which could reverse the progress achieved with fiscal consolidation. Directors therefore urged the authorities to maintain a prudent fiscal stance and to persevere with the reform program, especially with respect to the tax system, public expenditure management, and social security. The restoration of momentum to the structural reform program and the setting of appropriate budgetary targets for 2001 would facilitate continued international financial support to Panama, including from the Fund.

Directors strongly supported the authorities' decision to eliminate the fiscal deficit in 2001. They regretted the delay in submission of legislation to the assembly to broaden the value added tax and increase the effective rate of tax on bank income. In order to minimize compression of expenditure, they urged the authorities to submit the necessary legislation as soon as possible. Improvements in tax administration would further enhance the revenue impact of these measures. Directors urged the authorities to prepare detailed and comprehensive ceilings on expenditure for 2001 that are consistent with realistic revenue projections and the deficit target for the central government. Directors encouraged the authorities to expand the coverage of the automated financial management system (SIAFPA). Progress with this reform would be needed to keep the fiscal program on track and to allow an increase in budgetary allocations to social programs. Improvements to SIAFPA could also help the targeting of social expenditure, thereby contributing to poverty alleviation. Directors also encouraged the authorities to formulate soon a plan with concrete proposals to deal with the growing imbalances in the social security system.

Directors welcomed the rapid progress that had been made since the creation of the Banking Superintendency in 1998 with reform of the regulatory and supervisory framework for banks. In particular, they commended the Superintendency for completing in October 2000 a self-assessment of adherence to the Basel Principles for Effective Banking Supervision, and for the progress it had achieved with its program of consolidated inspections of both general and international license (offshore) banks. Directors welcomed the authorities' commitment to undertake a Module 2 assessment—led by the Fund—under the Fund's program for OFCs, beginning in April 2001. They also praised Panama's recent efforts to strengthen its anti-money laundering regime. Directors urged the authorities to address promptly the supervisory and regulatory weaknesses relating to the finance companies.

Directors supported the authorities' intention to submit legislation to the assembly that would enable the closing of the National Mortgage Bank. They encouraged the authorities to reflect the quasi-fiscal operations of the Agricultural Development Bank in the budget and to rationalize its operations.

Directors noted that the reduction in the pace of increase in credit to the domestic economy in 2000 was desirable, given the very rapid rate of growth of credit in 1998-99. They stressed, however, that the rate of growth of bank system credit to the economy, and standard indicators of bank soundness, should continue to be monitored closely.

While Panama's statistics are generally adequate for surveillance purposes, the authorities were encouraged to address remaining weaknesses, especially in the balance of payments and national accounts.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Panama: Selected Economic Indicators
(Annual percentage change unless otherwise noted)

	1997	1998	1999	Est. 2000 1/	Proj. 2001 1/
Real economy					
Nominal GDP	6.2	5.6	4.4	3.8	5.6
Real GDP	4.5	4.4	3.0	2.3	4.0
Consumer price index 2/	-0.5	1.4	1.5	2.0	1.8
Unemployment rate 3/	13.4	13.6	11.6	13.3	...
Gross national saving 4/	24.3	19.7	18.2	19.8	23.0
Nonfinancial public sector 4/					
Revenue and grants	28.7	28.3	29.2	28.7	29.2
Expenditure	28.9	31.3	30.7	29.8	29.2
Current	24.5	24.9	25.9	26.1	25.5
Capital	4.5	6.4	4.8	3.7	3.7
Saving	3.0	2.4	2.9	2.2	3.4
Overall balance	-0.2	-3.0	-1.4	-1.1	0.0
Money and interest rates 5/					
Net domestic assets of the banking system	10.3	17.8	18.0	12.0	9.5
Public sector (net)	-2.0	-1.2	-0.7	-0.1	0.2
Private sector	12.5	21.9	17.4	13.1	9.9
Liabilities to the private sector	15.4	12.2	7.6	9.1	9.1
Deposit rate (six month) 6/	6.2	6.1	6.2	6.4	...
External economy					
Current account balance 4/	-6.8	-13.1	-14.4	-10.4	-7.4
Gross external debt 2/ 4/	57.8	58.5	58.3	57.9	55.8
Net public debt	47.3	47.2	50.2	48.6	...
Public external debt-service ratio (in percent of exports of goods and services 2/ 7/)	44.1	21.5	24.5	23.8	26.8
Real effective exchange rate (depreciation -)	0.9	-1.5	4.4	...	...

Sources: Panamanian authorities; and Fund staff estimates.

1/ Fund staff projections.
2/ End of period.
3/ Based on August observations.
4/ In percent of GDP.
5/ In percent of initial stock of liabilities of the private sector.
6/ Period average.
7/ Figures for 1997 reflect the effect of debt restructuring.

February 12, 2001

Statement by Murilo Portugal, Executive Director and Alfredo Maciá, Assistant for Panama
January 22, 2001

On the basis of preliminary data, the authorities anticipate that real GDP growth has reached 2.8 percent in 2000, owing to better than expected growth in the second half of the year. In addition, preliminary data indicates that the target for the PSBR of US$100 million in 2000 was observed.