

PDKAD 650

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523

PANAMA

PAAD

FINANCIAL STABILIZATION &

ECONOMIC RECOVERY

AID/LAC/P-206

Loan Number: 525-K-601  
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18. SUMMARY DESCRIPTION

The purpose of the assistance is to provide urgently needed budgetary support to the Government of Panama to enable (1) compliance with the current IMF standby arrangement (2) facilitate immediate GOP negotiation of a syndicated commercial bank loan to cover amortization requirements for 1985 and 1986 (3) maintain economic stabilization necessary to create conditions suitable for revitalization of the economy and (4) assist the GOP in instituting structural and policy reforms needed to resume economic growth through greater dependence on the Panamanian private industrial and agricultural sectors operating in a free-market economy.

19. CLEARANCES	20. ACTION
LAC/CEN: PAaskin <i>PA</i> 12/13/84	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
LAC/DP: JOleson <i>JO</i> 12/13/84	M. Peter McPherson 18 DEC 1984
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GC/LAC/: RMeighan <i>RM</i> 12/14/84	Administrator
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# PROGRAM ASSISTANCE APPROVAL DOCUMENT

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## **A C R O N Y M S**

<b>AID</b>	<b>Agency for International Development</b>
<b>BHN</b>	<b>National Mortgage Bank</b>
<b>BNP</b>	<b>National Bank of Panama</b>
<b>ESF</b>	<b>Economic Support Fund</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GNP</b>	<b>Gross National Product</b>
<b>GOP</b>	<b>Government of Panama</b>
<b>IMF</b>	<b>International Monetary Fund</b>
<b>IBRD</b>	<b>International Bank for Reconstruction and Development</b>
<b>IRHE</b>	<b>Institute of Hydraulic and Electrical Resources</b>
<b>MICI</b>	<b>Ministry of Commerce and Industry</b>
<b>MIDA</b>	<b>Ministry of Agricultural Development</b>
<b>MIPPE</b>	<b>Ministry of Planning and Economic Policy</b>
<b>PAAD</b>	<b>Program Assistance Approval Document</b>
<b>PRD</b>	<b>Democratic Revolutionary Party</b>
<b>SAL</b>	<b>Structural Adjustment Loan</b>
<b>USAID/P</b>	<b>United States AID Mission to Panama</b>

## I. SUMMARY AND RECOMMENDATION

### A. Economic Background and Outlook

Panama's economic growth in the 1970s was based, to a large extent, on increased levels of government spending financed by foreign borrowing. During the 1970s, three fourths of new jobs created were in the public sector, and the ratio of the public debt to GDP grew from 30 percent in 1970 to 92 percent in 1983. At the same time, the government enacted a series of laws and economic policy measures which have distorted prices and resulted in a misallocation of resources. The Panamanian economy has stagnated since 1983 as a consequence of the low rate of growth of Panama's trading partners, the contractionary impact of fiscal austerity, and the slowdown of private sector activity which resulted from the uncertainty associated with the national elections held in May.

Panama faces a difficult situation in the short run. Although Panama met the terms of an IMF Stand-by Arrangement in 1983 and in the first semester of 1984, a deteriorating fiscal situation makes it almost impossible for the GOP to remain in compliance with the December 31, 1984 IMF targets unless additional financial resources are obtained on a grant basis. Being out of compliance with the IMF would jeopardize the delicate negotiations underway with the commercial banks. Panama needs to syndicate a commercial bank loan of about US\$740 million to cover amortizations and bond redemptions due in 1985 and 1986, and this requires compliance with the IMF.

Even if Panama were to weather its short-term financial crisis, it faces a difficult medium-term outlook. In a situation characterized by economic stagnation and mounting unemployment, Panama will confront a serious problem of international adjustment as there will be a need to reverse capital flows. In a country where absolute parity is maintained with the U.S. dollar, the adjustment will have to come fully from a readjustment in the real exchange rate, i.e., a lowering of the price of non-tradeables in relation to tradeables. Unless Panama were to adjust real wages downward and/or receive increased levels of concessionary resources, it is highly probable that there will be a reduction in GDP and a sharp increase in unemployment.

### B. Program Summary

The proposed program provides for a cash transfer in December 1984 of a \$30,000,000 ESF grant to the Government of Panama (GOP). The program will enable the GOP to cover the majority of its 1984 fiscal gap, thereby remaining in substantial compliance with the IMF standby arrangement and enabling the government to negotiate a syndicated commercial bank loan for 1985 and 1986 amortization payments.

ESF funds provided in this program will be attributed to priority areas in the GOP's investment budget which are in consonance with AID's and the GOP's policy objectives. In essence, funds will support budget items which directly or indirectly affect employment, agriculture, and housing

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and urban development. These three broad areas embrace a sub-set of activities which include: policy reforms, stimulating exports in both the industrial and agricultural sectors, reducing tariffs and removal of price controls, elimination of certain import restrictions, and increasing the availability of shelter to Panama's growing number of urban migrants. Section VII of this PAAD contains of specific list of the items in the Investment Budget to which the ESF assistance will be attributed.

The number and complexity of financial and political challenges facing the new government are enormous, and the implications involved in the success or failure of this government are wide-ranging and of immediate consequence for U.S. interests in Panama and Central America. Panama, indeed, stands at an historical crossroads. The direction she takes can be greatly and positively influenced through a relatively modest program of ESF grant assistance. The \$30,000,000 program proposed in this PAAD will provide tangible and prompt evidence of U.S. support to the first elected Panamanian president in the past 16 years. Our assistance will do much to ensure the government's success in carrying out its programs of financial stability, economic reform, spreading the benefits of growth and strengthening democratic institutions. No more effective contribution to Panama's continuing economic and political stability can be made than the timely provision of the requested grant assistance.

C. Grantee

The grantee will be the Government of Panama, represented by the Ministry of Finance (Ministerio de Hacienda y Tesoro). The ESF grant funds will be deposited in the Banco Nacional de Panama and will be attributed to priority areas for budgetary support as specified in Section VII of this PAAD.

D. Conditions and Covenants

Conditions and covenants are discussed in detail in Section VIII of the PAAD.

E. Recommendation

USAID/Panama and the U.S. Embassy recommend authorization of an Economic Support Fund grant to the Government of Panama in the amount of \$30,000,000. The grant is to be obligated and disbursed in the form of a cash transfer for urgent budget support requirements. Obligation and disbursement will occur in December 1984.

II. BACKGROUND

A. General Background

1. U.S. Interests and Policy Objectives

As the site of a major interoceanic canal through which passes

much of our external trade, Panama is of great strategic importance to the United States. The 1977 Panama Canal Treaties increased Panama's role in the operation and maintenance of the canal. The U.S./Panamanian partnership in operating the Canal has worked well and this positive relationship will continue to be important as we move to turning over complete control to Panama. By the year 2000, Panama will assume full control over canal operations. U.S. military bases help protect these strategic interests. U.S. economic interests in Panama are also strong: U.S. private investment in the country is the third largest in all Latin America--greater than in all the neighboring Central American countries combined. Also, a pipeline across Panama now transports Alaskan oil destined for the United States East Coast.

Geographic proximity to the Central American crisis area and its own deteriorated economic situation, plus the October 1984 installation of the new government, which came to power following a closely contested and disputed national election, raise concerns for Panama's continued political stability and economic well-being. A worsening of political conditions in Central America could seriously damage Panama's relative tranquility and pose a significant threat to U.S. interests. Recognizing the external danger to its security, Panama has joined with Mexico, Colombia and Venezuela to seek a peaceful solution to the conflicts in which Central America is now embroiled.

A favorable outcome of our ongoing economic and security programs in the Central American region may depend on some early signs of success. Panama, if supported and encouraged in carrying out an emerging economic reform program, is the most likely candidate for providing such success.

Our primary policy objectives in Panama, therefore, are to assist the government in (1) fostering a democratic political system and an economic and social environment conducive to the successful operation of the canal, the oil pipeline, and the defense facilities; (2) attaining economic stabilization; (3) implementing a series of policy reforms to achieve the structural adjustment needed for a resumption of sustained economic growth; and (4) preserving the high degree of equity achieved during the past two decades.

## 2. Political Update

Panama has just held its first direct presidential election in 16 years. It was won by a tiny plurality amidst charges of fraud by the opposition, which had waged a bitter struggle against corruption and the 16 year hegemony of the PRD and its military backers. Dr. Nicolas Ardito Barletta took office on October 11, 1984, for a five-year term. Dr. Ardito Barletta campaigned on a platform of "evolutionary change," and as an economist, former planning minister and senior World Bank official, he is fully aware of the need for major economic policy reforms if the Panamanian economy is to grow dynamically over the long term. He has been involved from the start in the IBRD's Structural Adjustment Loan (SAL) to Panama which

supports economic policy reform. The election was neither fought nor decided on the basis of major economic issues facing Panama. The economic programs of the two principal contenders were essentially similar and consistent with the new directions which we support. However, significant opposition to policy change has begun, particularly from economic groups that would be negatively affected by certain policy reforms and by segments of the winning coalition who see the direction of the reform process, including the SAL agreement, as a clear negation of "Torrijismo". An encouraging development, however, has been the high professional caliber of individuals named to the new cabinet and to other key positions.

### 3. Social Update

Panama achieved impressive improvements during the 1970's in the provision of schools, health and family planning services, potable water, electricity and communications for its rural population. This achievement required heavy public investment and is reflected in a comparison of social progress indicators for the years 1970 and 1980 (See Table 1). Having financed these and other less well chosen investments (e.g., construction of a convention center, airport, sugar mills, etc.) through massive foreign borrowing, the GOP is now obliged to shift its attention away from debt financed economic development and severely limit public expenditures in order to remain solvent. Without economic growth, the social development which has been achieved cannot be sustained or expanded.

Notwithstanding the change of emphasis from social to economic problems, the Government cannot ignore Panamanians' expectations. At a minimum, the existing level of services must be sustained, consolidated and expanded to the extent necessary to keep pace with population growth, or the risks of social unrest will increase. As there are significant inefficiencies in the operations of many government agencies, it should be possible to introduce cost-saving measures. The main purpose of several of USAID's Development Assistance projects is to improve the efficiency of public sector institutions.

There still remain some areas of severe poverty and malnutrition in the countryside as well as in the urban areas. A major problem in rural areas, especially in the central provinces, is the presence of isolated communities which offer little opportunity for off-farm employment. Urban areas suffer from growing unemployment and continued migration from the countryside. The plight of the urban poor is most evident in the congested, decaying tenements of the inner city and sprawling squatter settlements on the fringes of the metropolitan area. The situation is particularly acute in Colón where the unemployment and crime rates have reached crisis proportions.

## B. Economic Background <sup>1/</sup>

### 1. Macroeconomic Trends

In the 1960s, Panama's GDP grew rapidly but the benefits of economic growth were concentrated in the hands of a few and the social and economic infrastructure outside the metropolitan corridor remained at a low level of development. The Government which came into power in 1968 sought to introduce major social reforms and to improve the economic and social infrastructure, while attempting to sustain the rapid GDP growth experienced during the 1960s. Between 1968 and 1973 the GDP grew at an annual rate of 7.3 percent and basic needs indicators began to show significant improvements, suggesting that Panama had devised a successful growth-with-equity model. However, beginning in 1973 private economic activity stagnated and the relatively low rates of economic growth in the period 1973-77 were due, to a large extent, to increasing levels of government spending financed through foreign borrowing. Without these high levels of government spending, it is almost certain that GDP would have declined. As a consequence, Panama has one of the most serious foreign debt problems in the world today. In 1982, Panama paid a higher fraction of GDP for debt service of its public foreign debt than any other country in the world except the Congo.

In 1977 the Panama Canal Treaties were signed, ending a period of uncertainty related to the negotiations, and this resulted in an increase in confidence and in private investment. However, by 1982 Panama was feeling the impact of the world recession, both generally and particularly through declining exports of services resulting from sharp cutbacks in the income and trade of other Latin American countries. Real private investment fell after completion of the transisthmian oil pipeline. Cost overruns and increases in public spending designed to compensate for the decrease in private investment pushed the public sector deficit up to 11 percent of GDP, nearly twice the amount stipulated under the GOP's Stand-by Arrangement with the IMF. This expansionary fiscal policy offset the effects of world recession and contributed to an increase in GDP of 5.5 percent in 1982, but required a 19 percent increase in the external public debt.

In mid-1983, the GOP reached an eighteen-month Stand-by Arrangement with the IMF which imposed strict constraints on public spending, limiting the overall deficit of the public sector to the equivalent of 6 percent of GDP in 1983.<sup>2/</sup> Panama was able to comply with the IMF targets by instituting a public austerity program. The fiscal austerity, as well as

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<sup>1/</sup> The IMF report Panama-Recent Economic Development (September 4, 1984) provides the most up to date information on the Panamanian economy.

<sup>2/</sup> The terms of the IMF Stand-by Arrangement are detailed in part 7 of this section.

the reduced level of economic activity of Panama's trading partners, resulted in economic stagnation in 1983. Preliminary statistics show a 0.2 percent increase in GDP in 1983. However, this increase resulted entirely from the value added by the oil pipeline across the isthmus. If value added by the oil pipeline is excluded, the GDP would show a decline of 5.1 percent in 1983. An important distortion introduced in the national accounts by the pipeline is that the deflator used for that activity is based on a composite index of oil shipping rates, and this index was in 1983 significantly lower than the GDP implicit deflator. If value added by the pipeline is deflated by the GDP implicit deflator, then the GDP would be lower in real terms in 1983 than in 1982. During the first half of 1984 economic stagnation continued but the GOP was able to meet the targets of the IMF Stand-by Arrangement for March 31 and for June 30, 1984.

## 2. Production by Sector

Services account for three fourths of GDP and provide employment to one half of the labor force. A significant proportion of services are related to international transactions and are based on the exploitation of the geographic position as well as of Panama's liberal banking legislation. The most important items are the tolls collected for passage through the Canal, fees for the use of the transisthmian oil pipeline, services offered by the Colón Free Zone, and international banking. Agriculture accounts for about 10 percent of GDP and employs more than one fourth of the labor force. The main products are livestock, bananas, rice, sugarcane, and coffee. Manufacturing accounts for about 10 percent of GDP and employs about the same percentage of the labor force. Production for the domestic market is highly protected and based on food processing, light industry and construction materials. Exports consist of petroleum derivatives and some light consumer goods such as garments. Construction accounts for about 7 percent of GDP and employs 6 percent of the labor force. In recent years, value added in the sector was based on high income housing and buildings for office space for the international banking center. Recent civil works projects, such as the transisthmian pipeline and the La Fortuna hydroelectric dam, have contributed to a marked increase in value added by the construction sector. Now that those large projects have been completed, the sector is depressed.

## 3. Prices

Panama is a small, open economy and does not attempt to affect monetary aggregates. As a consequence, domestic price trends follow closely international prices. In 1983, the consumers price index increased at an average rate of 3.5 percent compared with 4.2 percent in 1982 and 7.3 percent in 1981. Panama has had a system of price control designed to maintain the purchasing power of low income consumers, but as part of the strategy to regulate the economy, price controls on most goods are being eliminated.

#### 4. Public Sector Finances <sup>1/</sup>

The public finance situation since 1970 may be divided into three distinct periods. From 1971-75, public savings averaged 2.6 percent of GDP, capital expenditures 9.1 percent, and the overall deficit averaged 6.5 percent. In the period 1976 to 1980, average public savings declined to 0.7 percent of GDP and capital expenditures increased to 13.6 percent thus pushing the overall deficit of the consolidated public sector to 12.9 percent of GDP. Since 1981, with the exception of 1982 where the deficit reached 11 percent of GDP, the deficit has been held at less than 6 percent. The deficits were financed almost entirely by foreign borrowing, mostly on commercial terms.

#### 5. The Financial Sector

The Panamanian financial system is highly integrated with international financial markets. The U.S. dollar is the medium of exchange and as there are no capital controls there is almost perfect capital mobility. Up to now, domestic credit activities have not been constrained by the availability of domestic resources but have been demand-determined as the banking system has been able to tap the international market virtually at will to supplement domestic resources. This situation may change if the fiscal position of the GOP were to deteriorate further, and international banks decide to reduce their exposure to the private as well as to the public sector.

Panama does not have a central bank. The Banco Nacional de Panama (BNP) has a number of the attributes of a central bank including: a) it is the fiscal agent for the public sector; b) it holds the required minimum reserve of the commercial banks; c) it handles paper currency via transfers to and from the U.S. and d) it runs the clearinghouse. The National Banking Commission, an autonomous agency with a board of directors headed by the Minister of Planning, carries out a supervisory role and is responsible for licensing and inspecting banks.

Given the almost perfect capital mobility and the openness of the economy, there is little scope for an active monetary policy. Although the banking legislation provides for several policy instruments that could affect monetary aggregates, these have not been used. There are some interest rate regulations, but domestic interest rates are largely determined by international interest rates.

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<sup>1/</sup> The situation of Public Sector Finances are well documented in the IBRD, Structural Change and Growth Prospects, August, 1984. This section is based on data summarized in that report.

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## 6. The Balance of Payments <sup>1/</sup>

Given Panama's monetary system, the size of the current deficit is fully determined by the availability of foreign financing. In Panama, the trade balance is highly negative but is partly compensated by the balance of non-factor services.

Between 1979 and 1982 the current deficit of the balance of payments rose from 8.2 percent of GDP to over 10 percent. A deterioration in the merchandise trade account was compounded by a sharp increase in interest payments abroad, resulting from both the rising international interest rates and the growth of public sector external debt. Net non-factor service receipts grew throughout the period, largely as a result of the transshipment of Alaskan oil through the Canal. In 1983, the current account deficit fell sharply to 4.3 percent of GDP. The slowdown in domestic growth produced a sharp fall in import levels which more than offset a drop in Panama's exports. The improvement in the trade deficit coincided with a decline in world interest rates, an increase in tolls charged for canal traffic, and the opening of the petroleum pipeline.

The composition of net identifiable capital inflows has varied in recent years, and has depended to a large extent on fiscal policy. Net official capital inflows fell from nearly 9 percent of GDP in 1979 to 4 percent of GDP in 1981 as the overall deficit of the public sector was reduced. Meanwhile, private sector borrowing abroad rose from 6 percent of GDP in 1979 to 8 percent in 1981, reflecting the construction of the oil pipeline in 1981. The completion of the oil pipeline in 1982 led to a sharp reduction in private capital inflows although that reduction was more than compensated by the increase in foreign borrowing by the public sector. Total capital inflows fell from 13 percent of GDP in 1982 to 4 percent in 1983 as, on a net basis, the private sector amortized nearly US\$100 million and public sector borrowing was reduced by half.

## 7. The IMF Stand-by Arrangement

In June 1983, the IMF approved a Stand-by Arrangement with Panama for the 18 month period ending December 31, 1984, in an amount equivalent to SDR 150 million. In essence, the agreement provided that Panama would not borrow on a net basis from commercial sources, that it would not borrow on a net basis from the Banco Nacional de Panama (BNP) over the levels of December 31, 1982, and that it would not increase its short term debt. The overall deficit of the consolidated public sector was to be limited to US\$270 million in 1983 and to US\$250 million in 1984, and these deficits were to be financed fully from

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<sup>1/</sup> Data on the balance of payments of Panama are inherently inaccurate because of the inability to identify transactions between residents and non-residents, particularly in the case of capital transactions.

non-commercial sources. Maximum net borrowing for the period was thus limited to US\$520 million. In September 1983, the GOP reached agreement with foreign commercial banks on a US\$278 million loan to cover the amortization of loans from commercial banks, and of bond redemptions due in 1983 and 1984.

In 1983, the deficit of the consolidated public sector reached US\$247 million, or US\$23 million lower than the limits set in the IMF Stand-by Arrangement. For 1984, the deficit has been limited to US\$273 million (the US\$250 million originally agreed plus US\$23 million "carried over" from 1983). In 1984, a limit on net external borrowing from non-commercial sources was set at US\$250 million, while the GOP could borrow up to US\$23 million from the BNP. Any net foreign borrowing above US\$250 million must be used in its entirety to decrease the net credit from BNP to the non-financial public sector.

### III. MAJOR DEVELOPMENT PROBLEMS

#### A. Economic Policy

Panama's economic policies differ markedly between sectors. While the service sector developed with a minimum of government regulation and control, there has been significant intervention in other sectors. Agricultural policy in the past decade emphasized self sufficiency in basic food commodities through a pricing policy that raised the prices of deficit commodities and lowered the prices of surplus commodities, resulting in a misallocation of resources. Additionally, price policy was used to some extent as a mechanism to transfer income from urban areas to rural areas. Additionally, there was increased government intervention manifested through the establishment of government owned enterprises, such as sugar mills, large-scale marketing activities, and the creation and support of agrarian reform communal farms (asentamientos). Employment in the public agriculture sector and in the government as a whole mushroomed. The Ministry of Agricultural Development (MIDA) emphasized the provision of social services and gave relatively less emphasis to promoting agricultural production, particularly by private farmers. Furthermore, policies in the sector have been inconsistent and often unpredictable due to frequent changes at senior levels in the numerous sector agencies which often seem to operate as autonomous fiefdoms.

In the industrial sector, the policy of import substitution which began in the early 1960s was continued. Protection of domestic industries was accomplished basically through a system of import quotas, and the domestic prices of items subject to quotas were regulated through price controls administered by the Office of Price Regulation. In 1972, the Torrijos Government enacted a labor code which has increased significantly labor costs and has restricted the flexibility of entrepreneurs in areas such as productivity payments and apprentice training, and this has been viewed by Panamanian and foreign investors as a major disincentive for investment and employment.

The Government attempted to reduce housing costs by establishing rent controls, and by providing loans at subsidized interest rates. As a consequence, the supply of low cost rental housing and of private mortgage financing has been severely restricted. Additionally, protection of the construction materials industry and a very strict construction standards code have raised housing costs significantly.

The pursuit of the set of policies briefly outlined above resulted in a misallocation of resources and constrained growth in all sectors with the exception of the service and government sectors. The need to stimulate the economy to compensate for the private sector slack, the expensive nature of many Government programs, and the losses sustained by most government enterprises resulted in levels of government spending which greatly exceeded revenue and which required high levels of foreign finance. Since the debt situation will severely constrain foreign borrowing by the public sector, future economic growth in Panama will have to depend on the reactivation of the private sector, which can be achieved only through the implementation of a more appropriate and coherent set of policies. This redirection of economic policy will not be universally welcomed as there is significant opposition from interest groups, including leading members of the coalition which won in the national elections, which benefit from present policies.

#### B. The Public Debt

During the 1970s and 1980s, Panama sustained significant fiscal deficits which were financed mostly by foreign borrowing. The overall deficit of the consolidated public sector averaged over 10 percent of the GDP in the period 1973 to 1983. During that period, the total public debt of Panama increased from US\$800 million (43 percent of GDP) to US\$4 billion (92 percent of GDP), a level that cannot be sustained. Panama reduced the overall deficit of the public sector from 11 percent of GDP in 1982 to 6 percent in 1983 and 1984. Panama will have to maintain even greater austerity over at least the next five years and/or find the means to retire a portion of the debt by, for example, selling assets.

#### C. Unemployment

In order to understand the nature of the unemployment problem in Panama today, it is necessary to analyze what occurred in the labor market in the 1970s. Although the rate of job creation in the 1970s was only one half of the rate of the 1960s <sup>1/</sup>, the unemployment rate remained stable because of a reduction in the rate of growth of the economically active population, a consequence of a decline in the participation rate. This decline in the overall participation rate was due entirely to a decline in the rates of 15-19

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1/ Seventy five percent of new jobs created in the 1970's were in the public sector.

year olds, and of those older than 54 years, an indication that the fall was due to increased levels of high school and university enrollments, as well as a reduction in the retirement age. The problem is that the reduction in the participation rate was a one-shot occurrence and therefore the labor force will increase at a much higher rate in the 1980's, i.e., at a rate of more than three percent per year.

The most recent official figures of unemployment are based on the August 1982 household survey carried out by GOP's Estadística y Censos. Unemployment in that year reached 8.4 percent, and visible underemployment reached the equivalent of 2.1 percent of the labor force. The data from the 1983 household survey have not been processed completely, but available data indicate that the unemployment rate increased to about 11.3 percent, and that unemployment and visible underemployment together had reached about 14 percent. Fully 73 percent of the unemployed are concentrated in the metropolitan region which comprises Panama and its adjacent cities, and Colón. In certain areas adjacent to Panama City, such as San Miguelito, unemployment is close to 20 percent, and it is estimated to exceed 25 percent in the City of Colón. The concentration of unemployment in a few urban areas contributes significantly to the explosiveness of the unemployment issue, which is viewed by many as the most important problem facing Panama today.

#### D. Rapid Urbanization

Closely related to the unemployment problem is the continued problem of rural-to-urban transformation. In 1970 the country was half urban, with 44 percent of the population living in the metropolitan area (Panamá, Colón and suburbs). By 1980 the figures were 57 percent urban and 49 percent in the metropolitan area, and by the year 2000 the metropolitan area alone is projected to hold more than 60 percent of the population. This rapid transformation from a rural to an urban society has had a direct and visible impact on the Canal area, increasing the unemployment rate and straining urban infrastructure. Although extensive public investment has maintained water, sewerage, education, health and other public services at adequate levels, urban development has not kept pace with demand. The problems associated with this rapid growth call for the provision of shelter, services and facilities for the burgeoning population.

### IV. ECONOMIC PROSPECTS

#### A. Short Run Economic Prospects

This section is classified (see confidential Panama 12786).

**B. The Prospects for 1985 and Beyond.**

Economic prospects beyond 1984 are not bright, particularly in view of the slow growth forecasted for Panama's main trading partners, and the contractionary effect of fiscal austerity which will be required because of the unsustainable high level of the public debt. Thus, the private sector must become the primary vehicle for restoring economic growth, and this will require a progressive and coherent set of economic policies. The process of economic policy reform designed to reactivate the economy by stimulating the private sector, particularly through the promotion of non-traditional exports, began with the De la Espriella administration. The USAID, working in close cooperation with the World Bank, has been instrumental in accelerating the process of policy reform through active support and encouragement. Some initial policy measures already have been undertaken, while others are being defined by the USAID-assisted Economic Studies Program.

Some of the policy measures already undertaken are: a) export restrictions on beef and coffee were eliminated; b) rice subsidies were reduced; c) the markets for several vegetables were freed of government intervention; d) an unprofitable sugar mill was closed and several government assets, including a luxury hotel, were sold; e) almost all import quotas were replaced by ad valorem tariffs; f) new agricultural and industrial incentive laws that place greater reliance on market mechanisms have been drafted; and

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1/ The 1983 Agreement with the commercial banks for the syndicated loan included weekly reporting on the financial position of BNP, but this requirement has not been met.

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g) rent controls for newly constructed housing units renting for more than US\$250 per month have been eliminated.

Dr. Ardito Barletta, who supported the policy reforms from his former position at the World Bank, is well qualified to guide the country in the direction that it must follow to achieve continued economic and social development. However, the process of policy change is encountering stiff opposition from groups who will be negatively affected by the reforms. For example, the reports of some of the commissions appointed by Dr. Ardito Barletta to advise him during the period of transition contain conclusions which are so diametrically opposed to policy reform that the reports may not be issued. In addition, on November 13th President Ardito announced new tax and expenditure measures which have already caused a strong negative reaction across many sectors of Panamanian society. Strikes, including a general strike, have been called and protest marches have become a daily occurrence in late November. Among the new measures announced by the President were:

1. Improve customs administration and increase tariff collections.
2. The "Contraloria" will maintain better control of spending by autonomous agencies.
3. Reduced government operating expenditures. Some items mentioned were fuel, power, trips abroad, purchases of equipment, and rental of buildings. Total savings for 1985 were estimated at B/.64 million.
4. The state will try to sell or lease Aeroperlas, Contadora, Citricos de Chiriqui, and ENDEMA (Agricultural Machinery Services Company).
5. All public sector salaries are frozen for two years; salary increases scheduled for January 1, 1985 will not be granted.
6. New law regulating government employment will be drafted.
7. Increase in the value used to determine real estate taxes.
8. Representational allowances of public servants will be taxed.
9. Establishment of a new 7 percent tax on services, and increased duties for luxury items. (Mr. Ardito Barletta was somewhat vague on service taxes, but a previous attempt to do this failed after heavy opposition).
10. State owned enterprises will increase their efforts to collect overdue bills.

Even if the new Panamanian administration is able to implement an appropriate and coherent set of economic policies, Panama still would face the most significant economic problem of its history in the next five years. Besides the problem of slow growth in the region and its effect on Panamanian

exports, Panama will confront a serious problem of international adjustment.

In the early 1970s the Panamanian private and public sectors received important capital inflows from abroad.<sup>1/</sup> Some of these inflows were the direct result of Panama's emergence as an international banking center, as newly established banks increased their domestic assets more rapidly than their domestic liabilities. This inflow of resources slowed down in the latter part of the decade, and from 1979 to 1983, the inflow of foreign resources to the public sector averaged only US\$16 million. From 1985 onwards, given the public sector's reduced ability to borrow on a net basis and increased levels of interest payments, there will be a net outflow of resources from the public sector which will average around US\$230 million per year. The data is summarized in Table C:

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<sup>1/</sup> Data on inflows to the private sector are very inaccurate.

TABLE C

NET FOREIGN INFLOWS TO THE PUBLIC SECTOR

<u>Year</u>	<u>Net Foreign Borrowing (1)</u>	<u>Interest on Foreign Debt (2)</u>	<u>Net Flow (3)=(1)-(2)</u>
	-----US \$ MILLION -----		
1979	195	175	20
1980	203	237	-37
1981	270	274	- 4
1982	487	328	159
1983	259	274	-15
1984	250	275	-25
1985	204	417	-213
1986	210	443	-233
1987	225	454	-229
1988	225	498	-273

Professor Arnold Harberger, who has been advising the GOP as part of USAID's program of economic studies, analyzed the problem of international adjustment and summarized his findings in a paper entitled Panama's Fiscal and International Debt Crisis: One Problem or Two? (undated). Dr. Harberger concluded that:

a) "...from a theoretical point of view we should expect that if there is a substantial reduction (or reversal) of capital flow (net of debt service) into Panama, this will likely set in motion forces that will press toward a new equilibrium with a significantly higher real exchange rate (i.e., lower price level in Panama vis-a-vis the United States), and b) the other major Latin America debtor countries have actually experienced such a real devaluation in the period when fate required them to confront their respective international payments crises. To me, it would be folly for Panama to ignore these two lessons, one from theory, the other from experience. Both tell us that a rise in the real exchange rate is something Panama is likely to have to face."

Under Panama's exchange regime, the full adjustment will have to come from lowering the price of non-tradeables in relation to the price of tradeables, and this would require a downward adjustment in real wages. Dr. Harberger further states:

"To make the required shift from net inflow to net outflow of funds requires important adjustments of the entire economy. In particular I would judge that, given the exchange rate of 1 Balboa equals 1 dollar, a reduction in real wages of some 5 to 10 percent would be needed as against the time path that they would have followed in the absence of the debt problem."

"The downward adjustment of real wages is an essential part of the solution to Panama's current problem. The only alternatives would be a) an augmentation of the debt/GDP ratio (already ruled out), b) a series of grants that would permit Panama to meet its debt's service payments without difficulty, or c) a substantial fall in output and employment."

"Recent pressures for raising public sector wages are therefore counterproductive for two reasons: first, they exacerbate the problem of the public sector's fiscal deficit; second, they signal a movement of real wages in the opposite direction from what the current situation of the Panamanian economy requires."

"I cannot emphasize too strongly the importance of recognizing the need for real exchange rate (real wage rate) adjustment. Failure to do so in the case of Chile was probably the principal cause of a fall in GDP of nearly 15 percent between 1981 and 1982, and of an increase of the measured unemployment rate from less than 9 percent to well over 20 percent in little more than a year."

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Obviously, from a political and social point of view, a combination of wage discipline and increased inflows of concessionary resources is the preferred alternative. As the US is the only source of concessionary finance for Panama, we believe that it is imperative for the US Government to reappraise its programmed levels of assistance to Panama, and to increase them significantly in order to provide sufficient resources to allow Panama to weather this impending economic crisis with a minimum of social and political unrest. At the same time, real wage costs must be reduced, and this gives greater urgency to the need to reform the labor code, particularly those provisions which increase labor costs.

#### V. RATIONALE FOR U.S. ASSISTANCE

Panama is completely different from other countries because of its monetary system. Panama has no central bank and although the balboa is the national unit of account, only a small volume of balboa coins circulates and no balboa bills are issued. The effective medium of exchange is the US dollar and, as a consequence, Panama does not have the same type of foreign exchange constraint as many countries in the region. The Panamanian system can be viewed as one where parity with the US dollar is maintained at an equilibrium exchange rate. In Panama, macroeconomic equilibrium is essentially a fiscal problem. In fact, the leading indicator of macroeconomic stability is the public sector deficit rather than the balance of payments deficit. Therefore, our contribution to financial stabilization must be targeted to the fiscal deficit.

The rationale for immediate U.S. assistance (1984) is to maintain financial stability by providing budgetary support to the GOP at a critical political juncture. Unless the GOP receives budgetary support on a grant basis before the end of 1984, it will be unable to meet the conditions of the IMF Stand-by Arrangement, as it is now impossible as a practical matter to cut spending further. If Panama falls out of compliance, it will jeopardize not only prospects for a future Stand-by Arrangement but it will probably make a commercial bank syndicated loan impossible, thus forcing the GOP to restructure its debt in a less orderly manner. Given the openness of the Panamanian economy and almost perfect capital mobility, the orderly financing of the public sector deficit is necessary if capital flight and a liquidity crisis of the banking sector are to be avoided. Obviously, massive capital flight would result in a financial crash that would threaten the social and political stability of the country.

In 1985, increased levels of US assistance will help the GOP in its transition to a more market-oriented economic model. Although the liberalization of the economy will provide increased benefits in the future, the process of policy reform will result in short-run costs concentrated in certain segments of society (e.g., for entrepreneurs and workers in protected industries, and farmers who are presently receiving prices for their output above world market prices). Significant opposition to policy reform already has begun and is likely to intensify in the coming months. Our economic

assistance would help to stimulate the economy and thus mitigate some of the short-run costs associated with the process of policy reform. The difficulties of the transition process are compounded by Panama's critical financial situation. Without a central bank or currency of its own, Panama cannot resort to a devaluation or to the self-defeating, but often practiced, policy of monetary expansion. As previously mentioned, commercial borrowing alternatives are also effectively restricted. Moreover, recourse to the IMF will be reduced after 1984 because Panama will have approached the maximum limits of its IMF borrowings, and Panama will also lose access to finance from the San José Oil Agreement. Although the GOP is committed to further cuts in its already austere budget, the requirements of servicing its \$4.0 billion total public sector debt leave a serious financial gap unfilled. Even if fiscal austerity is maintained, additional resources beyond the levels presently programmed by international institutions will be required in 1985-87. Beginning in 1988, as economic growth resumes, the public finance situation should improve markedly.

Financial support by the U.S. is needed if Panama is to sustain essential public services, programs vital for development and for the thrust of our country strategy, and which are necessary if the government is to overcome political obstacles to economic reforms. More importantly, our ESF program will enable the U.S. Government to effectively encourage the government to carry out the new policies which are detailed below in the policy agenda.

## VI. POLICY AGENDA

The development strategy initiated by the Torrijos Government in 1968 emphasized the provision of social services, while economic growth and employment creation were stimulated, to a large extent, through a sharp expansion of government spending financed by external borrowing. With the advent of the De la Espriella government, the GOP shifted the focus of its economic policy. The GOP is committed to employment creation through a reactivation of the private sector, particularly for the production of export commodities and greater reliance on market mechanisms. President Ardito Barletta has affirmed his commitment to economic liberalization along the same lines.

The new policy is embodied in the financial stabilization program agreed upon with the IMF and the structural adjustment program supported by a World Bank loan which was signed in November, 1983. The USAID has actively supported the new policy direction by financing, along with the World Bank, a studies program directed by the Ministry of Planning (MIPPE).

Although the USAID Mission has collaborated closely with the IMF and the World Bank, an important component of our country strategy has been to define a policy agenda independently of those institutions. Most of the measures that we are encouraging the GOP to undertake are included as conditionality by the IMF and/or the World Bank; however, there is not an absolute coincidence

of measures. USAID is basically promoting measures that would encourage private sector activity by allowing markets to work more freely and with less distortion. In comparison with the IMF, our approach gives greater emphasis to the "supply side". The following are examples of areas where we disagree with the IMF and/or the World Bank:

a) In a recent report (IMF, Panama - Staff Report for the 1984 Article IV Consultation, August 20, 1984), the IMF encouraged the GOP to essentially raise the payroll tax. We believe that given the high rate of unemployment and the high rates of payroll tax (22% of wages), it is totally inappropriate to exacerbate the situation by raising tax rates on wages.

b) In the same report, the IMF suggested that electric power rates be raised. However, electric power rates in Panama are among the highest in the world, partly as a consequence of inefficiencies of the power company (Instituto de Recursos Hidráulicos y Electrificación, IRHE). We believe that a management audit needs to be carried out to identify cost saving measures, and that those measures should be implemented. In the area of power rates and IRHE inefficiency we are also somewhat at odds with the World Bank, as they have been major lenders to IRHE and are presently considering a seventh loan to that institution. The World Bank has been negligent in the past in requiring improvements in the operating efficiency of IRHE.

Our policy dialogue approach is evolutionary and involves intensive interaction and consensus building. To achieve this, we have followed closely the policy debate underway in Panama and have supported key individuals whose views on policy reform are similar to ours by providing them with the necessary resources to carry out technically sound analysis of policy alternatives. A good example is our economic studies program at MIPPE which has been an effective mechanism to support policy change at the highest levels of government. Additionally, we are using our project assistance to encourage policy reform. Three recent examples have been: (a) The GOP agreed to raise interest rates on low income housing for most AID financed projects to 12 percent, and by doing so has confirmed that low income individuals will borrow at market interest rates; (b) our Small Business Development Project, which was signed on September 18, 1984, includes a condition requiring the GOP to phase out small business lending by the Ministry of Commerce and Industry (MICI), an activity for which it is ill suited and (c) market interest rates will be charged to the final borrowers under our Small Business Development Project. In connection with HG 012 we have negotiated an agreement to restructure the National Mortgage Bank (BHN) to allow it to function as an autonomous financial institution. In addition, we presently are negotiating the elimination of a 0.5 percent tax on industrial and commercial lending which is being used to subsidize low income housing; a draft law eliminating this subsidy was approved in one of the first meetings of the new Cabinet and it will be submitted to the Assembly for its approval in the immediate future.

The policy measures presently under consideration and those already undertaken represent a significant departure from the past. This shift in economic policy is a difficult and politically risky process involving

numerous groups with vested interest in existing policies. Success must be measured in terms of the total process of change and its direction and not in terms of any one or two specific policy measures undertaken. A summary of specific policy measures which has served as a negotiating agenda for the USAID Mission was presented in the Concept Paper for ESF assistance. In discussions with key individuals of the new administration, we have begun to determine a logical calendar for specific policy changes, but it must be recognized that this is a sensitive and difficult process because of political uncertainties and because the need to obtain approval from the new legislature introduces an additional factor which increases the uncertainty associated with policy reform. However, we have identified a discrete number of highly significant policy reforms and have received assurances from the Minister of Planning that the present administration will attempt to implement them within the next six months, subject to its ability to obtain the necessary support in the legislature.

The most important areas of policy reform in which USAID is involved are summarized below. In Chart 1, page 27, we have summarized the policy actions that will be subject to USAID conditionality.

#### A. Industrial Incentives Law

Since the 1960's, Panama has encouraged import substitution for manufactured goods through a myriad of laws and regulations. Domestic industry was protected by a system of import quotas that has now been almost completely replaced by tariffs, but these tariffs are presently at levels that reach nominal protection levels of over 100 percent, and these levels are not uniform. It is a well accepted precept of economic theory that when tariff rates are not uniform, and particularly when they vary greatly, a significant misallocation of resources results. We will covenant our FY 1984 ESF assistance on the presentation to the legislature of an industrial incentive law based on a system of low and uniform tariff protection. The optimum level of protection was estimated in a study which was carried out as part of our Economic Studies Program. Additionally, several industrial incentives favor the use of machinery over labor. It will be necessary to design a system of industrial incentives that would at least be neutral between the use of labor and capital.

#### B. Input Costs

Under Panama's monetary system, the competitiveness of exports can be affected only by a reduction in the cost of non-tradeables in relation to the cost of tradeables. Labor costs are high in Panama as a consequence of the upward pressure in wages from the Canal Area activities, and labor costs were increased further with the passage of the Labor Code in 1982. There are three aspects of the labor code which are considered to provide a disincentive to investment and to employment creation. First, tying payments directly to production (payments for piecemeal work) is difficult because of labor code provisions that state that a worker's remuneration cannot be reduced. Hence, if a worker receives high payments during a pay period where his productivity

has been high, it is not easy to reduce payments in future pay periods even if the worker's productivity drops. As assembly industry relies heavily on payments tied to productivity, this has been a disincentive to the establishment of that type of industry in Panama. Second, training of apprentices is discouraged because once a worker is hired it is costly to dismiss him even if the worker does not prove to be suited to the particular type of work for which he was trained. Third, tenure provisions in general tend to make labor a fixed cost of production and reduce the flexibility of entrepreneurs to reduce the work force when market conditions warrant it. Modification of the Labor Code is a highly sensitive political issue, but we plan to covenant our FY 1984 ESF assistance on the modification of labor code provisions regulating payments for piecemeal work. Our Skills Training Project will have as a condition precedent the modification of labor code provisions dealing with apprenticeship training to limit the tenure rights of apprentices. Under our Economic Studies Program, we are contracting a consultant with experience in apprenticeship laws to advise the GOP and USAID. From a political point of view, it may be impossible to modify tenure provisions in general, but we have commissioned a study that attempts to measure the costs imposed on entrepreneurs by those provisions.

Electric power rates in Panama are among the highest in the world, partly as a consequence of the inefficiency of the Instituto de Recursos Hidráulicos y Electrificación (IRHE). We are planning to finance under our Development Administration Project a management audit of IRHE. We believe that the World Bank should be encouraged to condition future assistance to IRHE on the implementation of cost saving measures.

Port rates are high in Panama. With our Employment Planning and Generation project we will finance a study of economic, managerial and financial aspects of the ports. Given the sensitive political issues involved with the ports, assets which reverted to Panama under the Canal Treaties, we believe our involvement must be limited to the provision of resources to analyze the situation, but that U.S. imposed conditionality would be counterproductive.

#### C. Housing

The GOP eliminated rent controls on housing renting for more than US\$250 a month. We will include a covenant on our FY 1985 ESF and HG housing program that will require the GOP to introduce legislation eliminating rent controls on newly constructed housing of all rental levels.

We will have a condition precedent on our FY 1985 ESF housing program that would require the elimination of Law 28. (Law 28 establishes a 0.5% tax on commercial and industrial loans, and uses the proceeds to subsidize low income housing).

#### D. Agriculture

USAID has been instrumental in encouraging the GOP to lower support

prices, particularly for rice. We will include in our 1984 ESF assistance a covenant that will require the GOP to introduce to the legislature a new agricultural incentive law that moves away from the concept of encouraging general self sufficiency in agricultural commodities and gives greater emphasis to export promotion.

**E. Forestry**

The laws regulating land tenure of forest lands have been a disincentive to the rational management and exploitation of forests. As a condition precedent to our Private Sector Reforestation Project, the GOP will introduce legislation that guarantees tenure; this is expected to increase the incentives for reforestation.

**F. Divestiture of State Owned Enterprises**

Divestiture is a sensitive political issue, but we believe that it is an absolute necessity particularly because of the present fiscal situation. We plan to assist the GOP in its divestiture plans by providing resources to contract expert advice to establish values and to begin the marketing strategy to sell several state-owned, non-productive enterprises. We are planning to finance this activity with our Development Administration Project. Additionally, we plan to use resources from our Development Policy Studies Project to advise the GOP on ways to streamline the now cumbersome divestiture procedure.

**G. Contracting Procedures**

GOP contracting procedures are cumbersome and have presented a serious constraint to the timely implementation of projects and programs. The GOP is presently considering a law which will delegate certain contracting authority from the President to the Minister level. We will covenant our ESF FY 1984 assistance on the submission to the legislature of a law to accelerate contracting procedures.

**H. Banking Legislation**

The international banking center grew rapidly largely as a result of the Banking Law of 1970; the number of banks licensed in Panama increased from 15 in 1970 to over 120 in 1984. Notwithstanding this clear success, the activity of the banking center recently has slowed down for basically three reasons. First, the level of loan bookings for Latin American countries has been reduced markedly because of the debt crisis. Second, the offshore banking centers in the U.S., and particularly the one in Miami, are taking business away from the international banking center in Panama. Third, the image of the center has suffered because of recent bank failures.

In a recent report prepared under USAID Program of Economic Studies,<sup>1/</sup> Donald Lessard and Adrian Tschoegl concluded that it is necessary to reform the Banking Commission to allow it increase its regulatory functions. Under our Development Policy Studies Project we plan to bring consultants to assist the GOP in determining the changes which are required in the banking code. We plan to condition our FY 1986 ESF assistance on the implementation of the necessary banking reform measures.

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<sup>1/</sup> Donald Lessard and Adrian Tschoegel, Panama's International Banking Center: Where Does it Stand and What Can be Done to Insure its Continued Viability and Increase its Contributions to the Panamanian Economy, September 26, 1984.

SUMMARY OF AID CONDITIONALITY

<u>GOP Policy Action</u>	<u>Estimated Date of Action</u>	<u>CP/Covenant</u>	<u>FY Funds/Mode of Assistance</u>
1. Presentation to Legislature of Industrial Incentives Law Based on Low and Uniform Tariff	During 1985	Covenant	84/ESF
2. Modification of Labor Code Law dealing with piecemeal work	During 1985	Covenant	84/ESF
3. Presentation to the Legislature of Agricultural Incentives Law	During 1985	Covenant	84/ESF
4. Institution of New Procedures to Streamline Host Country Contracting Procedures	March 1985	Covenant	84/ESF
5. Elimination of Law providing interest rate subsidies for Low Cost Housing Construction (Law 28)	March 1985	CP	85/ESF HG Prog.
6. Presentation of Legislation to eliminate Rent Control on newly constructed Housing	March 1985	Covenant	85/ESF HG Prog.
7. Modification of Labor Code Provisions dealing with Apprenticeship	June 1985	CP	85/DA Private Sector Productivity (Workforce)
8. Presentation to the Legislature of Law Regulating Land Tenure on Forest Lands	March 1986	CP	86/DA Private Sector Reforestation Project

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## VII. THE PROPOSED PROGRAM

AID strategy in Panama focuses on three critical problems: surging unemployment, a stagnant agricultural sector and rapid urbanization. In each area, AID is working closely with the GOP to develop and implement policies conducive to a revitalization of the economy, with the concomitant benefits of increased employment and exports, and the spread of benefits to a greater portion of the population. In keeping with the stated goals of the recently installed, democratically elected government of President Nicolas Ardito Barletta, a lead role in these activities will be played by the Panamanian private sector. However, the magnitude of the problems faced by the new government, not only in AID's priority sectors, but in others of vital importance (education, health services, transportation, etc.), are so great that all cannot be addressed equitably. Thus, the government and AID have agreed to concentrate resources in those areas which directly or indirectly affect unemployment, agriculture, and urbanization with emphasis on the role of the private sector.

The \$30,000,000 requested in this PAAD will be provided to the GOP as a cash transfer for budgetary support. This sum will ensure that priority activities, essential to growth and a reduction in unemployment, continue unabated with secure funding. Specifically, these funds will support the following items in three priority areas of the GOP's 1984 investment budget.

### A. Unemployment

To generate employment through increased private investment AID is: (1) supporting comprehensive economic policy analysis and development in conjunction with structural adjustment assistance from the World Bank; (2) working with the GOP and private entities to expand availability of credit and technical assistance for small business; (3) strengthening promotion and investor services capabilities of the National Investment Council and developing mechanisms to facilitate export production and marketing; (4) providing initial financing and technical assistance to establish a fund for skills and productivity training, in response to specific requirements of private enterprises.

Approximately \$12,000,000 of the \$30,000,000 requested in this PAAD will support the following priority activities which directly or indirectly stimulate employment generation.

- Industrial Parks in the cities of David and Azuero
- The National Investment Council of Panama
- Employment Planning and Generation Program
- Special School Renovation Program (a large renovation program, being carried out nation-wide, with important ramifications for new employment opportunities).

- National Program of School Maintenance
- Construction of Rural Roads
- Road Maintenance

B. Agriculture

In agriculture, AID is: (1) assisting the establishment of a sectoral policy analysis, planning, budgeting capability to guide the reorientation of government programs for emphasis on production in the private sector; (2) strengthening the government's capacity to develop and disseminate new technologies; (3) supporting programs for development of new agribusiness enterprises; and (4) working with public and private institutions to protect the country's natural resource base.

Approximately \$12,000,000 of the \$30,000 requested in this PAAD will be used to support priority activities in agriculture which are deemed critical to achievement of AID's and the GOP's goals. ESF monies will support the following items in the GOP's 1984 investment budget:

- Watershed Management
- Reforestation
- Institute of Agricultural Development
- Institute of Agricultural Marketing
- Agricultural Research and Extension Program
- Natural Resources Management and Protection.

C. Housing and Urban Development

In response to social pressures generated by rural-urban migration, AID is assisting the government to finance low-income housing and to strengthen key institutions, policies, plans and programs for meeting housing and urban development needs through mobilization of domestic private investment as well as that from the U.S.

Approximately \$6,000,000 of the \$30,000,000 requested by this PAAD will be allocated to items in the GOP's 1984 investment budget which directly or indirectly support activities in the housing and urban development sectors. Specifically, ESF grant funds will support the following items:

- Studies of Productive Uses for Reverted Areas.
- Urban Planning (Panama City, San Miguelito and Colon).

- Tax Mapping
- Land Assessment
- National Housing Bank

#### VIII. Conditions and Covenants

The Condition Precedent to Disbursement and the covenants shown below have been discussed with appropriate representatives of the GOP, who have agreed to their inclusion in the grant agreement.

The first three covenants concern measures to enable to passage of legislation required to implement proposed policy reforms. Two of the second three covenants deal with procedural steps necessary for AID to monitor successfully the ESF and IMF programs. The last covenant addresses the urgent need to streamline the GOP's contracting process.

##### A. Condition Precedent to Disbursement

1. A statement of the name(s) of the person(s) holding or acting in the name of the grantee, and any additional representatives, together with a specimen signature of each authorized person specified in such statement.

##### B. Covenants

The Government of Panama will covenant:

1. To present to the Legislature during 1985 a bill to reform the industrial incentive law through a system of low, uniform tariff protection.
2. To present to the Legislature during 1985 an agricultural incentive law which emphasizes increasing exports, rather than encouraging self-sufficiency.
3. To present to the Legislature during 1985 a proposal to modify those provisions of the current labor code which regulate payments for piecemeal work.
4. To establish a system to consolidate accounts of the public sector on a monthly basis and by the end of 1985.
5. To provide USAID/Panama with copies of all reports to the IMF as they are issued, regarding compliance with the stabilization program.
6. To undertake by Presidential Decree or other appropriate and legal mechanism, a process leading to resolution of the delays experienced in securing GOP approvals of host country contracts. The GOP covenants that this process shall be concluded within 3 months from the date of disbursement of the grant assistance provided by the Nonproject Assistance Agreement.

**A N N E X I**

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. No  
Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?
  
2. FAA Sec. 620 (c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? No

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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. Citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? No
4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 182 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? No
5. ISDCA of 1981 Secs. 724, 727 and 730. For Specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restriction on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981. N/A
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? No

7. FAA Sec. 620(1). Has the country failed to enter into an agreement with OPIC? No
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. No  
(a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?  
  
(b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. No  
(a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" Yes. The Administration has taken it into account at the time of approval of the Agency's OYB.

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memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No
12. FAA Sec. 620(u). What is the payment status of the country's U.S. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.) Panama is not in arrears in the payment of its U.N. obligations.
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country sided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by No

granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No
15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No
16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.S. of Sept. 25 and 28, 1981, and failed to dissasociate itself from the communique issued? If Yes, it was taken into account in the 1984 "Taking Into Consideration" Memorandum."

so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

17. ISDCA of 1981 Sec. 721.  
See special requirements for assistance to Haiti.

N/A

18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?

No

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

N/A

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria.

No

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized

human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interest of the U.S.?

N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President Certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicated in connection with the murder of Orlando Letelier?

N/A

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5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:  
B.1. applies to all projects funded with Development Assistance Funds,  
B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

(a) This Project was included in the FY 1985 Congressional Presentation.  
(b) It is within the OYB.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000 will there be (a) engineering, financial or

(a) Yes  
(b) Yes

other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required in Panama.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501  
If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

This is not a water or water-related land resource construction project.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistance Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

This is not a capital assistance project.

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.
  
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to:  
(a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
  
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

This program assistance complements assistance efforts by multilateral agencies, but the subject bilateral assistance has been deemed to be the most effective mode for accomplishing the intended program objectives.

The program assistance will (a) have a positive influence on trade; (b) stimulate the private sector; (c) increase public sector and technical efficiency; and (d) increase the spread of benefits of growth. It is not expected to impact on Panamanian labor unions.

The program will provide assistance necessary for the Government of Panama to maintain the financial and political stability necessary for continued investor confidence in the country and its public and private institutions.

9. FAA Sec. 612(b), 636(h);  
FY 1982 Appropriation Act Sec.  
507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. Panama uses U.S. dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? No
11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? This is nonproject assistance. A cash transfer is being provided to Panama.
12. FY 1982 Appropriation Act Sec.  
521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A
13. FAA 118(c) and (d). Does the project comply with the Yes

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environmental procedures set forth in AID Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests?

N/A

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical

N/A

assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

N/A

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter

N/A

cost-sharing requirement being waived for a "relatively least developed" country)?

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

N/A

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

g. FAA Sec. 281(b). Describe extent to which program recognizes the

N/A

particular, needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

2. Development Assistance  
Project Criteria (Loans Only)

a. FAA Sec. 122(b).  
Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)?

N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

Yes. The purpose of the assistance is to ensure financial stability and economic recovery.

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? N/A
  
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? N/A
  
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? Panama does not discriminate against U.S. Marine insurance companies.
  
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of N/A

agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas?
6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels are available at fair and reasonable rates?
7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent

N/A

N/A

N/A

practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

N/A

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

N/A

B. Construction

N/A

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used?
2. FAA Sec. 611(c). If contract for construction are to be financed, will they be let on a

N/A

competitive basis to maximum extent practicable?

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)? N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes

4. Will arrangements preclude use of financing:

- a. Finn Sec. 104(f); FY 1982 Appropriation Act. Sec. 525: Yes  
(1) To pay for performance of abortions as a method of family Planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortions?
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes
- c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- d. FAA Sec. 662. For CIA activities? Yes
- e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactures outside U.S., Yes

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unless a waiver is obtained?

- f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? **Yes**
- g. FY 1982 Appropriation Act, Sec. 505. To pay U.S. assessments, arrearages or dues? **Yes**
- h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? **Yes**
- i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? **Yes**
- j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? **Yes**
- k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? **Yes**

**A N N E X   I I**

Table 1  
Summary of Social Indicators

	<u>Panama</u>	<u>Middle Income</u>	<u>Latin American</u>
	<u>1970</u>	<u>1980</u>	<u>Country</u>
GNP/Capita	760	1910	2090
Life expectancy at birth	66	71	65
Infant mortality rate (per 000)	49	21	63
Access to safe water			
(% of population)	69	85	65
Access to excreta disposal			
(% of population)	78	89	55
Population per physician	1580	980	1776
Population per nurse	550	420	1012
Population per hospital bed	330	250	477
Primary school enrollment (%)	106	113	105
Secondary school enrollment (%)	39	65	40
Adult literacy rate (%)	78	85	80

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Table 2 : GROSS DOMESTIC PRODUCT AND GROSS DOMESTIC EXPENDITURE, 1970-82

(Millions of Balboas)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>Domestic Factor Income</b>	<u>889.4</u>	<u>1,001.4</u>	<u>1,094.3</u>	<u>1,258.0</u>	<u>1,436.7</u>	<u>1,609.4</u>	<u>1,709.9</u>	<u>1,776.3</u>	<u>2,101.6</u>	<u>2,391.2</u>	<u>3,038.5</u>	<u>3,316.7</u>	<u>3,665.5</u>
Employee compensation	511.0	594.0	680.8	762.2	893.1	942.8	1,006.9	1,052.3	1,218.7	1,392.8	1,624.6	1,800.2	2,034.6
Profits	378.4	407.4	413.5	495.8	543.6	666.6	703.0	724.0	882.9	998.4	1,413.9	1,516.5	1,630.9
Consumption of Fixed Capital	53.0	59.9	67.5	73.2	80.5	91.8	100.4	111.6	134.9	157.3	252.1	279.7	313.7
Indirect Taxes	81.4	91.4	106.0	115.8	138.5	142.5	147.4	183.6	221.7	255.1	269.7	285.4	313.7
Less: Subsidies	2.6	0.8	2.9	0.4	1.6	2.9	1.4	1.7	5.7	3.4	1.5	3.8	5.8
<b>GROSS DOMESTIC PRODUCT</b>	<u>1,021.2</u>	<u>1,151.9</u>	<u>1,264.9</u>	<u>1,446.6</u>	<u>1,654.1</u>	<u>1,840.8</u>	<u>1,956.3</u>	<u>2,069.8</u>	<u>2,452.5</u>	<u>2,800.2</u>	<u>3,558.8</u>	<u>3,878.0</u>	<u>4,287.1</u>
Public Consumption	152.3	180.2	226.5	250.1	299.3	353.3	386.1	412.1	482.9	567.2	680.5	812.9	965.3
Private Consumption	618.8	665.2	698.3	767.6	954.0	1,054.1	1,088.8	1,242.6	1,431.7	1,693.8	2,009.5	2,107.4	2,286.9
Gross Capital Formation	261.9	306.3	372.2	434.8	465.0	535.5	608.6	445.9	606.3	661.2	866.4	1,079.6	1,231.5
Change in Stocks	22.4	43.6	30.3	50.9	91.1	31.9	10.2	45.0	45.4	124.5	120.5	87.6	-0.1
Exports of Goods and Non-Factor Services	388.2	426.4	460.7	528.1	761.8	865.4	837.8	921.1	986.4	1,124.8	1,567.1	1,632.0	1,676.9
Less: Imports of Goods and Non-Factor Services	422.4	469.8	523.1	584.9	917.1	999.4	975.2	996.9	1,100.2	1,371.3	1,685.2	1,841.5	1,873.4
<b>GROSS DOMESTIC EXPENDITURE</b>	<u>1,021.2</u>	<u>1,151.9</u>	<u>1,264.9</u>	<u>1,446.6</u>	<u>1,654.1</u>	<u>1,840.8</u>	<u>1,956.3</u>	<u>2,069.8</u>	<u>2,452.5</u>	<u>2,800.2</u>	<u>3,558.8</u>	<u>3,878.0</u>	<u>4,287.1</u>

Source: Comptroller General.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

Table 3

DISPOSABLE NATIONAL INCOME AND ITS ASSIGNMENT, 1970-82

(Millions of Balboas)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a/</sup>
Public Consumption	152.3	180.2	226.5	250.1	299.3	353.3	366.1	412.7	482.9	567.2	680.5	812.9	903.3
Private Consumption	618.8	645.2	698.3	767.6	954.9	1,034.1	1,088.1	1,242.6	1,431.7	1,693.8	2,009.5	2,107.4	2,286.9
Savings	166.8	215.4	236.8	303.4	252.2	306.3	311.3	226.2	327.3	274.7	521.0	610.6	629.8
<u>Assignment of Disposable Income</u>	<u>939.9</u>	<u>1,060.8</u>	<u>1,163.6</u>	<u>1,321.1</u>	<u>1,505.5</u>	<u>1,713.7</u>	<u>1,766.2</u>	<u>1,880.9</u>	<u>2,241.9</u>	<u>2,535.7</u>	<u>3,211.0</u>	<u>3,550.9</u>	<u>3,881.8</u>
Domestic Factor Income	889.4	1,001.4	1,094.3	1,258.8	1,436.7	1,609.4	1,709.9	1,776.3	2,101.6	2,391.2	3,038.5	3,316.7	3,665.9
Employees' Compensation	311.8	394.0	480.8	762.2	893.1	942.8	1,006.9	1,052.3	1,218.7	1,292.8	1,624.6	1,800.2	2,034.6
Profits	378.4	407.4	413.5	495.8	543.6	666.6	703.0	724.0	882.9	998.4	1,413.9	1,516.5	1,630.9
Net Workers' Remittances from Abroad	...	...	...	...	...	...	...	...	...	...	62.8	58.6	72.1
Net Property Rents and Profits from Abroad	-26.5	-29.6	-31.9	-39.1	-34.4	-19.5	-55.5	-63.1	-57.4	-102.8	-172.8	-137.2	-198.9
Indirect Taxes	81.4	91.4	106.8	115.8	138.5	142.5	147.4	183.6	221.7	255.1	269.7	283.4	313.7
Less Subsidies	2.6	8.8	2.9	8.4	1.6	2.9	1.4	1.7	5.7	3.4	1.5	3.8	5.8
Other Transfers from the Rest of the World (Net)	-1.8	-1.6	-1.9	-13.2	-13.7	-15.8	-16.2	-14.2	-18.3	-4.4	14.3	31.2	35.2
<u>Disposable Income</u>	<u>939.9</u>	<u>1,060.8</u>	<u>1,163.6</u>	<u>1,321.1</u>	<u>1,505.5</u>	<u>1,713.7</u>	<u>1,766.2</u>	<u>1,880.9</u>	<u>2,241.9</u>	<u>2,535.7</u>	<u>3,211.0</u>	<u>3,550.9</u>	<u>3,881.8</u>

<sup>a/</sup> Preliminary

Source: Comptroller General.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

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Table 4

## GROSS DOMESTIC INVESTMENT AND ITS FINANCING, 1970-82

(Millions of Balboas)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>GROSS DOMESTIC INVESTMENT</b>													
Gross Fixed Capital Formation	261.9	306.3	372.2	434.8	465.0	535.5	608.6	445.9	606.3	661.2	866.5	1,079.9	1,231.7
Changes in Stock	22.4	43.6	30.3	50.9	91.1	31.9	10.2	45.0	45.4	124.5	120.5	87.6	1.5
Gross Domestic Investment	284.3	349.9	402.5	485.7	556.1	567.4	618.8	490.9	651.7	785.7	986.5	1,167.3	1,233.2
<b>FINANCED BY</b>													
Savings	168.8	215.4	238.8	303.4	252.2	306.3	311.3	226.2	327.3	274.7	469.0	456.1	438.9
Consumption of Fixed Capital	53.0	59.9	67.5	73.2	80.5	91.8	100.4	111.6	134.9	157.3	252.1	279.7	313.7
Current Account Deficit	62.5	74.6	96.2	109.1	223.4	169.3	207.1	153.1	189.5	353.7	265.4	431.5	480.6
Financing of Gross Domestic Investment	284.3	349.9	402.5	485.7	556.1	567.4	618.8	490.9	651.7	785.7	986.5	1,167.3	1,233.2

Sources: Comptroller General and IMF.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

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Table 5

## GROSS DOMESTIC PRODUCT AT MARKET PRICES BY SECTOR, 1970-82

(Millions of Balboas)

Sector	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b/</sup>
Agriculture, Forestry and Fishing	149.1	164.2	170.9	184.9	184.5	205.6	231.1	263.5	288.5	304.2	320.4	339.3	376.4
Mining and Quarrying	1.9	2.4	2.8	4.0	3.0	3.2	2.9	3.8	4.1	4.4	6.8	8.7	9.3
Manufacturing	127.3	135.9	141.0	161.0	202.0	236.0	217.3	234.0	252.6	293.3	356.0	375.6	397.2
Electricity, Gas and Water	21.8	21.8	20.3	28.1	29.8	41.4	46.9	63.7	82.5	93.0	113.8	142.4	132.6
Construction	68.2	87.4	93.7	123.2	129.2	151.5	164.2	122.6	172.7	194.4	258.4	293.2	300.6
Commerce, Hotels, and Restaurants	161.0	183.6	204.6	236.5	306.6	318.4	333.1	362.3	422.7	493.6	618.2	667.6	679.4
Transport, Warehousing and Communication	61.2	74.0	85.3	96.5	126.7	129.3	151.1	172.4	217.8	263.6	408.2	427.4	495.5
Financial Establishments, Insurance, Real Estate	122.1	138.5	163.1	191.6	203.4	242.7	277.3	306.9	346.5	430.1	503.2	587.4	648.0
Social and Community Services	68.2	80.5	100.0	113.9	129.7	141.0	153.0	164.5	181.2	206.5	246.9	275.1	314.2
Canal Area Services <sup>a/</sup>	73.0	78.7	81.4	90.0	96.5	104.7	108.8	119.6	140.7	158.9	0.0	0.0	0.0
Panama Canal Commission <sup>a/</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	312.4	330.5	333.2
Less: Imputed Commission of the Banking Sector	10.6	10.6	22.0	25.8	42.2	42.4	55.9	87.9	70.4	141.6	147.5	183.7	240.7
<b>INDUSTRY SUBTOTAL</b>	<b>845.2</b>	<b>956.4</b>	<b>1,043.1</b>	<b>1,205.9</b>	<b>1,369.2</b>	<b>1,531.4</b>	<b>1,629.8</b>	<b>1,725.4</b>	<b>2,038.9</b>	<b>2,302.4</b>	<b>2,996.8</b>	<b>3,285.9</b>	<b>3,617.5</b>
Government Services	117.8	132.9	158.3	174.4	212.2	241.8	260.8	277.6	329.7	399.4	446.4	468.3	532.3
Domestic Services	21.3	21.8	21.5	22.1	21.9	23.4	21.1	21.3	26.9	30.3	37.2	42.4	46.2
Plus: Import Duties	36.9	40.8	42.0	44.2	50.8	44.2	44.6	45.5	57.0	68.1	78.4	83.6	91.1
<b>GROSS DOMESTIC PRODUCT AT MARKET PRICES</b>	<b>1,021.2</b>	<b>1,151.9</b>	<b>1,264.9</b>	<b>1,446.6</b>	<b>1,654.1</b>	<b>1,840.8</b>	<b>1,956.3</b>	<b>2,069.8</b>	<b>2,432.5</b>	<b>2,800.2</b>	<b>3,358.8</b>	<b>3,878.0</b>	<b>4,287.1</b>

<sup>a/</sup> In 1980 the Panama Canal Treaties became effective, which incorporated Canal activities into the GDP accounts.

<sup>b/</sup> Preliminary

Source: Comptroller General.

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Table 6

GROSS DOMESTIC PRODUCT AT MARKET PRICES BY SECTOR, 1970 PRICES, 1970-83  
(Millions of 1970 Balboas)

Sector	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 <sup>b/</sup>
Agriculture, Forestry, and Fishing	149.1	160.7	155.4	157.1	147.9	158.6	167.1	175.5	189.1	181.0	175.7	188.1	188.7	194.6
Mining and Quarrying	1.9	2.2	2.4	2.9	2.7	2.5	2.2	2.1	2.2	2.4	3.1	3.8	4.1	4.4
Manufacturing	127.3	135.4	141.6	150.5	152.5	147.0	150.7	152.5	154.9	172.0	182.1	176.1	180.3	176.1
Electricity, Gas and Water	21.8	23.8	24.9	31.7	33.1	38.3	42.6	44.0	46.7	52.4	53.5	56.2	59.2	65.1
Construction	68.2	85.0	87.0	99.6	87.9	96.9	99.6	75.8	102.5	102.4	124.3	128.3	159.1	114.8
Commerce, Hotels and Restaurants	161.0	176.3	185.2	193.3	202.6	191.0	197.9	202.3	219.6	240.9	256.4	252.9	251.1	235.2
Transport, Warehousing and Communications	61.2	69.7	80.5	90.7	118.2	116.0	109.7	121.6	145.1	155.4	207.6	216.5	247.0	307.8
Financial Establishments, Insurance and Real Estate	122.1	136.3	150.1	165.7	170.7	178.8	184.2	193.8	199.7	222.9	227.2	243.5	251.4	260.8
Social and Community Services	68.2	76.2	88.5	92.3	97.3	102.8	105.9	109.9	118.3	127.8	142.6	150.1	161.8	165.1
Services to Panama Canal Area <sup>a/</sup>	75.5	75.5	74.4	75.1	77.8	74.7	70.0	71.4	74.3	76.4	0.0	0.0	0.0	0.0
Panama Canal Commission <sup>a/</sup>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	175.5	188.4	204.7	175.7
Less: Imputed Commission of Banking Sector	10.6	11.4	20.6	24.1	30.5	30.1	33.8	43.6	33.3	56.4	47.2	54.2	67.9	69.7
<b>INDUSTRY SUBTOTAL</b>	<b>845.2</b>	<b>929.7</b>	<b>969.4</b>	<b>1,034.8</b>	<b>1,060.2</b>	<b>1,075.7</b>	<b>1,096.1</b>	<b>1,103.3</b>	<b>1,219.1</b>	<b>1,277.2</b>	<b>1,498.8</b>	<b>1,549.7</b>	<b>1,639.5</b>	<b>1,629.9</b>
Government Services	117.8	127.5	138.7	141.5	157.2	169.9	172.1	181.7	187.6	196.5	201.2	222.9	232.1	242.5
Domestic Services	21.3	21.6	21.8	20.6	18.5	19.2	17.2	16.3	17.6	16.3	17.7	18.5	19.3	19.5
Less: Import Duties	36.9	40.6	41.6	36.6	27.8	20.9	21.7	20.1	26.5	26.3	28.1	27.7	28.1	30.7
<b>GROSS DOMESTIC PRODUCT AT MARKET PRICES</b>	<b>1,021.2</b>	<b>1,119.4</b>	<b>1,170.7</b>	<b>1,233.5</b>	<b>1,263.7</b>	<b>1,285.7</b>	<b>1,307.1</b>	<b>1,321.4</b>	<b>1,450.8</b>	<b>1,516.3</b>	<b>1,745.8</b>	<b>1,818.8</b>	<b>1,919.0</b>	<b>1,922.4</b>

a/ In 1980 the Panama Canal Treaties became effective which incorporated Canal activities into the GDP accounts.

b/ Preliminary.

Source: Comptroller General.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

Table 7

GROSS DOMESTIC PRODUCT AT MARKET PRICES BY SECTOR, 1970 PRICES, ANNUAL CHANGE, 1971-83  
(Annual Percent Change from Previous Year)

Sector	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Agriculture, Forestry, and Fishing	7.8	-3.3	1.1	-5.9	7.2	5.4	5.0	7.7	-4.3	-4.0	8.3	0.3	3.1
Mining and Quarrying	15.8	9.1	20.8	-6.9	-7.4	-12.0	-4.5	4.8	9.1	29.2	22.6	7.9	7.3
Manufacturing	6.4	4.6	6.3	1.3	-3.6	2.5	1.2	1.6	11.0	5.9	-3.3	2.4	-2.3
Electricity, Gas and Water	9.2	4.6	27.3	4.4	15.7	11.2	3.3	6.1	12.2	2.1	5.1	5.3	10.0
Construction	24.6	2.4	14.5	-11.7	10.2	2.8	-25.9	38.9	-0.1	21.4	3.2	24.0	-27.8
Commerce, Hotels and Restaurants	9.5	5.0	4.4	4.8	-5.7	3.6	2.2	8.6	9.7	6.4	-1.4	-0.7	-6.3
Transport, Warehousing and Communication	13.9	15.5	12.7	30.3	-1.9	-5.4	10.8	19.3	7.1	33.6	4.3	14.1	24.6
Financial Establishments, Insurance and Real Estate	11.6	10.1	10.4	3.0	4.7	3.0	5.2	3.0	11.6	1.9	7.2	3.2	3.7
Social and Community Services	11.7	16.1	4.3	5.4	4.8	3.8	3.8	7.6	8.0	11.6	5.3	7.8	2.0
Services to the Panama Canal Area <sup>a/</sup>	0.7	-1.5	0.9	3.6	-4.0	-6.3	2.0	4.1	2.8	n.a	0.0	0.0	0.0
Panama Canal Commission <sup>b/</sup> Imputed Commission of the Banking Sector	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	n.a	7.4	8.7	-14.2
	7.5	80.7	17.0	26.6	-1.3	12.3	29.0	-23.6	69.4	-16.3	14.8	25.3	2.7
<b>INDUSTRY SUBTOTAL</b>	<b>10.0</b>	<b>4.3</b>	<b>6.7</b>	<b>2.5</b>	<b>1.5</b>	<b>1.9</b>	<b>0.7</b>	<b>10.5</b>	<b>4.8</b>	<b>17.4</b>	<b>3.4</b>	<b>5.8</b>	<b>-0.6</b>
Government Services	8.2	8.8	2.0	11.1	8.1	1.3	5.6	3.2	4.7	2.4	10.8	4.1	4.4
Domestic Services	1.4	-2.8	-1.9	-10.2	3.8	-10.4	-5.2	8.0	-7.4	8.6	4.5	4.3	1.0
Import Duties	10.0	2.5	-12.0	-24.0	-24.8	3.8	-7.4	31.8	-0.8	6.8	-1.4	1.4	9.3
<b>GROSS DOMESTIC PRODUCT</b>	<b>9.6</b>	<b>4.6</b>	<b>3.4</b>	<b>2.4</b>	<b>1.7</b>	<b>1.7</b>	<b>1.1</b>	<b>9.8</b>	<b>4.5</b>	<b>15.1 <sup>b/</sup></b>	<b>4.2</b>	<b>3.5</b>	<b>0.2</b>

<sup>a/</sup> In 1980 the Panama Canal Treaties became effective which incorporated Canal activities into the GDP accounts.

<sup>b/</sup> If the Canal activities had not been incorporated into the GDP accounts in 1980, change would have been 5.3 percent.

Source: Statistical Appendix Table 2.6.

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Table 8

GROSS DOMESTIC EXPENDITURE: ANNUAL CHANGE, 1971-82  
(Annual Percent Change from Previous Year)

Expenditure	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Public Consumption	18.3	25.7	10.4	19.7	18.0	9.3	6.7	17.2	17.5	20.0	19.5	18.7
Private Consumption	7.5	5.0	9.9	24.3	10.5	3.3	14.1	15.2	18.3	18.6	4.9	8.5
Gross Fixed Capital Formation	17.0	21.5	16.8	6.9	15.2	13.7	-26.7	36.0	9.1	31.0	24.6	14.1
Changes in Stocks	94.6	-30.5	68.0	79.0	-65.0	-68.0	341.2	0.9	174.2	-3.2	-27.3	-100.0
Exports of Goods and Non-Factor Services	9.8	8.0	14.6	44.3	13.6	-3.2	9.9	7.1	14.0	39.3	4.1	2.8
Less: Imports of Goods and Non-Factor Services	11.2	11.3	11.8	56.8	9.0	-2.4	2.2	10.4	24.6	22.9	9.3	1.7
<u>GROSS DOMESTIC EXPENDITURE</u>	<u>12.8</u>	<u>9.8</u>	<u>14.4</u>	<u>14.3</u>	<u>11.3</u>	<u>6.3</u>	<u>5.8</u>	<u>18.5</u>	<u>14.2</u>	<u>27.1</u>	<u>9.0</u>	<u>10.6</u>

Source: Statistical Appendix Table 2.1

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Table 9

GROSS DOMESTIC PRODUCT AT 1970 PRICES BY EXPENDITURE, AND CORRESPONDING PRICE INDICES, 1970-82  
(Millions of Balboas)

EXPENDITURE	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Public Consumption	152.3	173.1	261.9	203.8	212.2	234.3	241.0	250.4	261.5	269.1	284.8	334.9	361.4
Private Consumption	618.8	660.0	660.6	678.8	753.1	733.0	733.3	787.1	877.0	931.6	952.4	945.7	981.4
Gross Fixed Capital Formation	261.9	301.0	373.1	373.8	334.5	361.0	368.2	244.6	303.2	299.9	363.3	426.1	445.3
Changes in Stocks	22.4	47.9	26.3	40.8	29.1	18.7	7.9	16.9	23.4	52.2	46.3	37.3	0.6
Exports of Goods and Non Factor Services	388.2	404.7	409.8	429.2	439.2	467.0	455.3	503.7	538.8	531.6	764.5	740.7	793.9
Less: Imports of Goods and Non Factor Services	422.4	467.3	501.0	494.9	554.4	528.3	500.6	481.3	553.1	568.1	667.3	663.9	663.6
(-A)	-20.7	-67.6	-91.7	-65.7	-115.2	-167.3	-145.3	-221.1	-114.3	-136.5	-102.8	-123.2	-70.2
GROSS DOMESTIC PRODUCT AT MARKET PRICES	1,021.2	1,119.4	1,170.7	1,233.5	1,263.7	1,285.7	1,307.1	1,321.4	1,450.8	1,516.3	1,745.8	1,818.8	1,919.0
CORRESPONDING PRICE INDICES													
Public Consumption	100.0	104.1	112.2	121.5	141.0	150.8	160.2	164.6	184.7	210.8	238.9	242.7	267.1
Private Consumption	100.0	100.8	105.7	113.1	126.7	143.8	148.1	159.9	163.2	181.8	211.0	222.8	233.0
Gross Capital Formation	100.0	101.8	99.8	116.3	139.0	148.3	165.3	182.3	200.0	220.5	237.2	253.4	276.6
Changes in Stock	100.0	91.0	115.2	124.8	154.1	170.6	129.1	266.3	194.0	238.5	260.2	234.9	n.a.
Exports of Goods and Non Factor Services	100.0	103.4	112.4	123.0	163.9	183.3	184.0	182.9	183.1	211.6	205.0	220.3	210.7
Less: Imports of Goods and Non Factor Services	100.0	100.5	104.4	118.2	165.4	189.2	194.8	207.1	198.9	241.4	252.4	276.5	281.5
GROSS DOMESTIC PRODUCT AT MARKET PRICES	100.0	102.9	108.0	117.3	130.9	143.2	149.7	156.6	169.0	184.7	203.8	213.2	223.4

Source: Comptroller General.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

Table 10

GRAND DOMESTIC INVESTMENT: COMPOSITION BY TYPE AND SECTOR, 1970-82  
(Millions of Balboas)

Type of Investment and Sector	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a/</sup>
<b>GRAND DOMESTIC INVESTMENT</b>	<b>284.3</b>	<b>349.9</b>	<b>402.5</b>	<b>485.7</b>	<b>556.1</b>	<b>567.4</b>	<b>618.8</b>	<b>490.9</b>	<b>651.7</b>	<b>785.7</b>	<b>986.9</b>	<b>1,167.2</b>	<b>1,231.4</b>
Construction	148.4	189.2	208.8	275.4	280.1	328.3	360.0	265.0	377.5	419.6	564.4	682.2	876.0
Housing	54.4	71.4	76.2	119.5	71.1	69.7	57.5	84.8	86.2	96.4	93.3	117.4	121.5
Other Buildings	48.4	64.7	67.7	69.9	95.0	109.8	65.6	77.4	115.1	187.1	219.7	225.8	218.4
Other Construction	45.6	53.1	64.9	86.0	114.0	148.8	236.9	102.8	176.2	136.1	251.4	339.0	536.1
Capital Goods	113.5	117.1	163.4	159.4	184.9	207.2	248.6	180.9	228.8	241.6	302.0	397.4	355.5
Machinery and Equipment	64.4	77.9	122.6	95.0	110.4	144.1	166.3	135.8	155.6	149.9	188.7	263.7	201.8
Transport and Communications	49.1	39.2	40.8	64.4	74.5	63.1	82.3	47.1	73.2	91.7	113.3	133.7	153.7
Changes in Stocks	22.4	43.6	30.3	50.9	91.1	31.9	10.2	45.0	45.4	124.5	120.5	87.6	-0.1
<b>PUBLIC SECTOR</b>	<b>70.4</b>	<b>70.1</b>	<b>166.4</b>	<b>118.4</b>	<b>176.7</b>	<b>283.7</b>	<b>399.9</b>	<b>277.4</b>	<b>357.9</b>	<b>274.9</b>	<b>379.8</b>	<b>349.9</b>	<b>504.3</b>
Construction	47.7	59.4	70.6	71.3	121.5	190.9	269.8	169.9	263.4	180.3	253.5	251.3	347.3
Housing	6.1	9.1	3.0	5.1	2.8	21.7	19.3	43.1	37.7	24.0	15.2	17.6	18.5
Other Building	9.0	14.1	21.3	8.4	24.6	36.4	24.5	35.6	63.6	47.3	20.5	21.0	29.9
Other Construction	32.6	36.2	46.3	57.8	94.1	132.8	226.0	91.2	162.1	109.0	217.8	212.7	298.9
Capital Goods	22.8	8.7	93.4	48.2	48.0	72.7	118.1	102.4	89.5	74.4	99.1	95.0	142.3
Machinery and Equipment	16.8	6.9	92.0	41.1	31.4	58.0	103.5	81.7	61.3	50.0	74.0	61.2	104.4
Transport and Communication	6.0	1.8	1.4	7.1	16.6	14.7	14.6	20.7	28.2	24.4	25.1	33.8	37.9
Changes in Stocks	-0.1	2.0	2.4	-1.1	7.2	20.1	12.0	5.1	5.0	20.2	27.2	3.6	14.7
<b>PRIVATE SECTOR</b>	<b>213.9</b>	<b>279.8</b>	<b>236.1</b>	<b>367.3</b>	<b>379.4</b>	<b>283.7</b>	<b>218.9</b>	<b>213.5</b>	<b>293.8</b>	<b>510.8</b>	<b>607.1</b>	<b>817.3</b>	<b>727.1</b>
Construction	100.7	129.8	138.2	204.1	158.6	137.4	90.2	95.1	114.1	239.3	310.9	430.9	528.7
Housing	48.3	62.3	73.2	114.4	68.3	48.0	38.2	41.7	48.5	72.4	78.1	99.8	103.0
Other Building	39.4	50.6	48.4	61.5	70.4	73.4	41.1	41.8	51.3	139.8	199.2	204.8	188.5
Other Construction	13.0	16.9	18.6	28.2	19.9	16.0	10.9	11.6	14.1	27.1	33.6	126.5	237.2
Capital Goods	90.7	108.4	70.0	111.2	136.9	134.5	130.5	78.5	139.3	167.2	202.9	302.4	213.2
Machinery and Equipment	47.6	71.0	50.6	53.9	79.0	86.1	62.8	52.1	94.3	99.9	114.7	202.5	97.4
Transport and Communications	43.1	37.4	39.4	57.3	57.9	48.4	67.7	26.4	45.0	67.3	88.2	99.9	115.8
Changes in Stocks	22.5	41.6	27.9	32.0	83.9	11.8	-1.8	39.9	40.4	104.3	93.3	84.0	-14.8

<sup>a/</sup> Preliminary.

Source: Comptroller General.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

Table 11

GROSS DOMESTIC INVESTMENT: ON BY TYPE AND SECTOR, 1970-1982  
(Millions of 1970 Balboas)

Type of Investment and Sector	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a/</sup>
<b>GROSS DOMESTIC INVESTMENT</b>	<b>284.3</b>	<b>348.9</b>	<b>399.4</b>	<b>414.6</b>	<b>393.6</b>	<b>372.7</b>	<b>376.1</b>	<b>261.9</b>	<b>326.6</b>	<b>352.1</b>	<b>411.6</b>	<b>463.4</b>	<b>445.9</b>
Construction	148.4	187.8	203.1	229.0	183.3	209.4	201.8	140.1	192.6	185.4	224.0	248.6	308.0
Housing	54.4	70.9	74.1	99.4	46.5	44.5	32.2	44.8	44.0	42.6	37.0	42.8	42.7
Other Building	48.4	64.2	65.9	58.1	62.2	70.0	36.8	40.9	58.7	82.7	87.2	82.3	76.8
Other Construction	45.6	52.7	63.1	71.5	74.6	94.9	132.8	54.4	89.9	60.1	99.8	123.5	188.5
Capital Goods	113.5	113.2	170.0	144.8	151.2	151.6	166.4	104.5	110.6	114.5	141.3	177.5	137.3
Machinery and Equipment	64.4	71.6	127.1	87.3	87.1	99.9	101.4	73.5	78.0	72.6	106.0	116.8	88.1
Transport and Communications	49.1	41.6	42.6	57.5	64.1	51.7	65.0	29.0	32.6	41.9	35.3	60.7	49.2
Changes in Stocks	22.4	47.9	26.3	40.8	59.1	18.7	7.9	16.9	23.4	52.2	46.3	37.3	0.6
<b>PUBLIC SECTOR</b>	<b>70.4</b>	<b>69.0</b>	<b>167.8</b>	<b>102.3</b>	<b>124.2</b>	<b>185.7</b>	<b>232.1</b>	<b>152.1</b>	<b>180.4</b>	<b>125.2</b>	<b>162.3</b>	<b>133.7</b>	<b>182.2</b>
Construction	47.7	58.9	68.7	59.2	79.5	121.8	151.3	89.8	134.3	79.7	100.6	91.6	122.1
Housing	6.1	9.0	2.9	4.2	1.8	13.9	10.8	22.8	19.2	10.6	6.0	6.4	6.5
Other Building	9.0	14.0	20.7	7.0	16.1	23.2	13.8	18.8	32.4	20.9	9.1	7.7	10.5
Other Construction	32.6	35.9	45.1	48.0	61.6	84.7	126.7	48.2	82.7	48.2	86.5	77.5	105.1
Capital Goods	22.8	8.3	97.0	44.3	39.2	52.1	74.6	59.3	44.0	34.9	49.4	42.4	57.7
Machinery and Equipment	16.8	6.4	95.5	37.8	24.8	40.2	63.1	46.1	30.7	24.2	41.6	27.1	45.6
Transport and Communication	6.0	1.9	1.5	6.5	14.4	11.9	11.5	13.2	13.3	10.7	7.8	15.3	12.1
Changes in Stocks	-0.1	1.8	2.1	-1.2	5.5	11.8	6.2	3.0	2.1	10.6	12.3	-0.3	2.4
<b>PRIVATE SECTOR</b>	<b>213.9</b>	<b>279.9</b>	<b>231.6</b>	<b>312.3</b>	<b>269.4</b>	<b>194.0</b>	<b>144.8</b>	<b>109.4</b>	<b>146.2</b>	<b>226.9</b>	<b>249.3</b>	<b>329.7</b>	<b>263.7</b>
Construction	100.7	128.9	134.4	169.8	103.8	87.6	50.5	50.3	58.3	105.7	123.4	157.0	185.9
Housing	48.3	61.9	71.2	95.2	44.7	30.6	21.4	22.8	24.8	32.0	31.0	36.4	36.2
Other Building	39.4	50.2	45.2	51.1	46.1	46.8	23.0	22.1	26.3	61.8	79.1	74.6	66.3
Other Construction	13.0	16.8	18.0	23.5	13.0	10.2	6.1	8.2	7.2	11.9	13.3	46.0	83.4
Capital Goods	90.7	104.9	73.0	110.5	112.0	99.5	91.8	45.2	66.8	79.6	91.9	135.1	79.6
Machinery and Equipment	47.6	65.2	31.9	49.5	62.3	59.7	38.3	29.4	47.3	48.4	64.4	89.7	42.5
Transport and Communications	43.1	39.7	41.1	51.0	49.7	39.8	53.5	15.8	19.3	31.2	27.5	45.4	37.1
Changes in Stocks	22.5	46.1	24.2	42.0	53.6	6.9	1.7	13.9	21.3	41.6	34.0	37.6	-1.6

<sup>a/</sup> Preliminary.

Source: Comptroller General.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

Table 12

PUBLIC CONSUMPTION BY COST COMPOSITION, 1970-82  
(Millions of Balboas)

CLASS	YEAR AND EXPENDITURE	TOTAL	COMPOSITION OF COSTS			
			COMPENSATION	CONSUMPTION OF FIXED CAPITAL	INTERMEDIATE CONSUMPTION	LESS: SALE OF OTHER GOODS AND SERVICES
<u>1970</u>						
1 & 2	General Public Services and Defense	45.2	35.4	0.0	10.0	0.2
3	Education	44.9	40.8	0.5	4.0	0.4
4	Health	16.7	12.6	0.1	5.0	1.0
5	Social Security and Social Welfare	21.1	13.8	0.8	6.9	0.4
6	Housing and Urban and Rural Improvements	3.5	2.2	0.1	1.2	0.0
7	Other Social and Community Services	5.0	2.8	...	2.7	0.5
8	Economic Services	14.3	8.3	0.2	7.0	0.7
9	Other	1.1	0.2	...	0.9	...
	TOTAL	<u>152.3</u>	<u>116.1</u>	<u>1.7</u>	<u>37.7</u>	<u>3.2</u>
<u>1971</u>						
1 & 2	General Public Services and Defense	47.6	36.9	...	10.9	0.2
3	Education	51.9	47.5	0.6	4.3	0.5
4	Health	19.8	14.0	0.0	6.8	1.0
5	Social Security and Social Welfare	27.0	16.7	0.9	10.0	0.6
6	Housing and Urban and Rural Improvements	4.9	2.6	0.1	2.3	0.1
7	Other Social and Community Services	4.9	3.7	...	1.3	0.1
8	Economic Services	23.8	9.3	0.4	15.0	0.9
9	Other	0.3	0.2	...	0.1	...
	TOTAL	<u>180.2</u>	<u>130.9</u>	<u>2.0</u>	<u>50.7</u>	<u>3.4</u>
<u>1972</u>						
1 & 2	General Public Services and Defense	79.9	40.7	...	39.5	0.3
3	Education	62.7	55.6	0.7	7.9	1.5
4	Health	22.3	17.1	0.1	6.3	1.2
5	Social Security and Social Welfare	33.2	22.0	1.1	10.9	0.8
6	Housing and Urban and Rural Improvements	3.9	3.0	0.1	0.9	0.1
7	Other Social and Community Services	4.6	2.9	0.6	1.4	0.3
8	Economic Services	19.1	13.9	0.4	5.9	1.1
9	Other	0.8	...	...	0.8	...
	TOTAL	<u>220.5</u>	<u>155.2</u>	<u>3.0</u>	<u>73.6</u>	<u>5.3</u>

Source: IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

**Table 13: KEY CONSOLIDATED PUBLIC SECTOR RATIOS, 1971-83**  
(As percent of GDP)

	1971-75 Average	1976-80 Average	1981	1982	1983 <sup>a/</sup>
Current revenues <sup>b/</sup>	22.8	25.7	31.0	30.2	32.8
Of which: taxes <sup>c/</sup>	17.6	20.2	22.2	22.0	22.2
non-tax revenues	5.2	5.5	8.8	8.2	10.6
Current expenditures	20.2	25.0	26.9	28.9	29.5
Public Saving	2.6	0.7	4.1	1.3	3.3
Capital expenditures	9.1	13.6	9.8	12.3	9.3
Overall deficit	6.5	12.9	5.7	11.0	6.0
Financed by:					
External borrowing (net)	6.3	12.5	1.6	10.3	6.0
Internal borrowing (net) <sup>d/</sup>	0.2	0.4	4.1	0.7	0.0

<sup>a/</sup> Preliminary.

<sup>b/</sup> Including grants in aid.

<sup>c/</sup> Including Social Security contributions.

<sup>d/</sup> From the National Bank.

Source: Statistical Appendix, Tables 5.1 through 5.6.

IBRD, Panama: Structural Change and Growth Prospects, Aug. 15, 1984.

Table 14

CENTRAL GOVERNMENT OPERATIONS, 1971-83

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
(Millions of Balboas)													
<b>CURRENT REVENUE</b>	181.1	197.9	225.0	268.0	297.1	295.0	369.0	405.4	477.0	707.8	791.1	863.3	906.2
Tax revenue	145.0	157.5	175.4	214.3	231.0	233.5	303.3	338.8	405.1	537.8	581.7	614.7	683.9
Income tax	60.0	60.0	71.4	88.9	101.8	95.0	117.7	120.9	152.1	205.0	236.5	270.9	302.6 <sup>a/</sup>
Other direct taxes	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	28.9	24.0	31.1	35.6	48.3	51.5	54.3
Taxes on foreign trade	41.5	42.7	44.9	61.0	58.2	56.0	56.4	70.1	80.2	91.0	99.1	106.0	115.1
Taxes on domestic transactions	27.5	37.4	39.4	44.8	48.9	58.4	100.3	123.8	141.7	206.2	177.8	186.3	211.9
Non-tax revenue	36.1	40.4	49.6	53.7	66.1	61.5	65.7	66.6	71.9	170.0 <sup>b/</sup>	208.8	233.6	222.3
Panama Canal	1.9	1.9	2.1	2.3	2.3	2.3	2.3	2.3	2.3	83.8	75.8	79.3	59.7
Oil pipeline royalties and taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	12.2
Transfers from rest of public sector	0.0	0.0	0.0	6.2	14.7	6.5	7.0	6.2	4.3	18.4	15.3	27.8	22.4
Of which: from Social Security Agency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.9	2.1	2.5	0.0	6.1	0.0	0.0
from decentralized agencies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0	4.4	5.0	4.3	4.4
from public enterprises	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	4.1	1.8	14.0	4.2	23.5	18.0
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	36.4	58.1	65.3	67.8	88.3	96.0	130.0
<b>TOTAL EXPENDITURES</b>	216.8	250.2	292.6	353.7	441.2	425.0	467.8	596.3	763.5	917.1	984.6	1,147.6	1,134.0
<b>CURRENT EXPENDITURES</b>	167.0	193.5	203.6	266.1	280.9	308.0	353.0	450.4	533.8	681.7	767.4	919.8	909.5
Wages and salaries	91.6	109.0	119.6	149.7	168.0	n.a.	184.4	196.5	235.2	280.8	296.5	317.8	353.7
Goods and services	28.0	23.9	20.6	32.3	25.1	n.a.	25.7	30.8	33.0	40.5	54.5	106.9	118.8
Payments and transfers	30.2	36.4	36.2	37.3	43.3	n.a.	74.8	107.7	130.6	142.0	175.5	171.0	161.5
which: to rest of public sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	37.7	52.0	58.9	71.6	82.2	91.0	71.5
to Social Security Agency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.8	17.5	22.5	16.6	41.2	35.6	46.9
to decentralized agencies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.0	26.8	27.1	30.7	32.7	45.8	36.4
to public enterprises	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.9	7.7	9.3	24.3	8.3	9.6	6.7
Interest	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	63.5	85.0	133.2	196.7	236.5	308.8	263.2
Internal	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.4	19.6	13.5	16.7	21.9	20.0	32.3
External	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	44.1	65.4	119.7	180.0	214.6	288.8	230.9
Other current expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.6	30.4	21.8	21.7	4.4	15.3	12.4
<b>CURRENT ACCOUNT SURPLUS OR DEFICIT (-)</b>	14.1	4.4	21.4	1.9	16.2	-13.0	16.0	-45.0	-76.8	26.1	23.1	-54.5	-3.3
Transfers-in-kind	0.0	0.0	0.0	5.1	8.6	22.0	7.7	4.7	5.0	1.8	0.6	0.0	0.0
<b>CAPITAL EXPENDITURE</b>	49.8	56.7	65.3	87.6	129.5	117.0	114.8	145.9	229.7	236.1	217.2	227.8	224.5
Fixed capital formation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	69.3	79.1	107.8	124.5	138.2	160.4	182.0
Transfers to rest of the consolidated public sector	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	45.5	66.8	121.9	116.6	79.0	67.4	42.5
to decentralized agencies	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	10.1	10.0	25.4	27.3	36.3	46.7	24.8
to public enterprises	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	35.4	56.8	96.5	84.3	42.7	20.7	17.7
U. Aitch to La Victoria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	0.0	47.5	62.6	17.3	7.7	5.0
<b>GENERAL SURPLUS OR DEFICIT (-)</b>	-35.7	-52.3	-46.6	-80.6	-135.5	-108.0	-91.1	-186.2	-301.5	-208.2	-193.5	-282.3	-227.8
External financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	127.4	286.6	185.2	236.1	67.3	307.2	101.2
National Bank	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-37.1	-96.4	120.7	-23.5	132.3	-22.2	129.3
Other <sup>c/</sup>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	-4.0	-4.4	-4.4	-6.1	-2.7	-2.7
(Annual percentage change)													
Current revenue	n.a.	9.3	13.7	19.1	10.9	-0.7	24.3	9.9	17.7	48.4	11.8	9.4	4.7
Tax revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	25.8	11.7	19.6	32.7	8.2	5.7	6.0
Non-tax revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18.2	1.4	8.0	136.4	22.8	11.9	1.0
Total expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.7	27.5	28.4	20.1	7.4	16.6	-1.2
Current expenditure	n.a.	13.9	5.2	30.7	5.6	9.6	9.0	27.6	23.0	23.1	12.6	19.9	-1.1
Capital expenditure	n.a.	13.9	15.2	34.2	47.8	-9.7	-12.8	27.1	57.4	2.8	-8.0	4.9	-1.4
(As per cent of GDP)													
Current revenue	15.7	15.2	15.3	14.6	13.1	12.2	17.8	16.5	17.0	20.2	20.4	20.5	21.0
Tax revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	14.7	13.8	14.5	15.4	15.0	14.5	15.9
Non-tax revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	2.7	2.5	4.8	5.4	5.5	5.1
Total expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.6	24.3	27.3	26.1	25.4	27.1	26.3
Current expenditure	14.4	14.9	13.8	14.5	12.4	12.7	17.1	18.4	19.8	19.4	19.8	21.8	21.1
Capital expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.5	5.9	8.2	6.7	5.6	5.4	9.2
Current account surplus or deficit (-)	1.2	0.3	1.5	0.1	0.7	-0.5	0.7	-1.9	-2.8	0.8	0.6	-1.3	...
Overall surplus or deficit (-)	-3.1	-4.0	-4.5	-4.4	-6.0	-4.5	-4.4	-7.6	-10.8	-5.9	-5.0	-6.7	-5.3

a/ Includes accounting of income tax promissory notes issued by oil pipeline company.

b/ Includes \$12.5 million in payments deferred from 1980.

c/ Includes funds placed locally.

Sources: Comptroller General, Ministry of Planning and Economic Policy and IMF.

IBRD, Panama: Structural Change and Growth Prospects, August 15, 1984.

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Table 15

CENTRAL GOVERNMENT REVENUE, 1971-83  
(Millions of Balboas)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
<b>TOTAL REVENUE</b>	<b>181.1</b>	<b>197.9</b>	<b>225.0</b>	<b>268.0</b>	<b>297.1</b>	<b>295.0</b>	<b>369.0</b>	<b>405.4</b>	<b>477.0</b>	<b>707.8</b>	<b>790.5</b>	<b>865.3</b>	<b>956.2</b>
<b>TAX REVENUE</b>	<b>145.0</b>	<b>157.5</b>	<b>175.4</b>	<b>214.3</b>	<b>231.0</b>	<b>233.5</b>	<b>303.3</b>	<b>338.8</b>	<b>405.1</b>	<b>537.8</b>	<b>611.1</b>	<b>645.2</b>	<b>683.9</b>
Direct taxes	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	146.6	144.9	183.2	240.6	299.6	316.5	356.9
Income tax	60.0	60.0	71.4	88.9	101.8	95.0	117.7	120.9	152.1	205.0	256.5	270.9	302.6 <sup>b/</sup>
Wealth tax	9.6	9.6	10.4	11.4	12.6	13.2	12.4	13.3	15.2	16.4	18.1	18.7	26.5
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16.5	10.7	15.9	19.2	25.0	26.9	27.8
Taxes on foreign trade	41.5	42.7	44.9	61.0	58.2	56.0	56.4	70.1	80.2	91.0	99.1	106.0	115.1
Export taxes	0.7	0.7	0.7	10.2	14.0	11.0	9.8	11.2	12.1	12.6	15.5	14.9	18.8
Import taxes	30.2	31.0	32.3	37.0	30.6	30.0	30.6	37.8	43.6	48.9	52.9	59.1	65.3
Consular dues	10.6	11.0	11.9	13.8	13.6	15.0	16.0	21.1	24.5	29.5	30.7	32.0	31.1
Taxes on domestic													
Transactions	27.5	37.4	39.4	44.8	48.9	58.4	100.3	123.8	141.7	206.2	212.4	222.7	211.9
Tobacco and beverages	13.5	16.6	15.9	17.5	19.9	19.6	20.4	23.2	25.7	27.8	29.5	31.2	31.5
Value added tax	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	31.1	48.3	55.3	66.4	73.8	79.4	73.1
Petroleum products	8.9	14.8	16.4	17.9	19.7	27.8	28.4	31.3	34.1	73.9	68.5	68.3	68.7
Ship registration fees	1.6	2.3	3.0	4.1	4.2	4.3	4.8	5.0	5.9	9.6	10.2	9.2	9.8
Stamp taxes	6.4	7.8	9.3	8.8	9.5	10.9	9.9	10.0	11.1	13.6	13.7	13.9	19.5
Other	3.5	3.7	4.1	4.7	5.1	6.7	5.7	6.0	9.6	14.9	16.7	20.7	9.3
<b>NONTAX REVENUE</b>	<b>36.1</b>	<b>40.4</b>	<b>49.6</b>	<b>53.7</b>	<b>66.1</b>	<b>61.5</b>	<b>65.7</b>	<b>66.6</b>	<b>71.9</b>	<b>170.0</b>	<b>179.4</b>	<b>220.1</b>	<b>222.3</b>
Panama Canal annuity	1.9	1.9	2.1	2.3	2.3	2.3	2.3	2.3	2.3	83.8 <sup>a/</sup>	75.8	79.3	59.7
Oil pipeline royalties and taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-17.0	12.2
Services	9.3	10.7	11.9	11.6	11.6	11.7	17.0	19.6	18.5	24.3	30.9	43.0	55.0
Gambling earnings	20.0	23.3	28.7	28.3	31.5	34.0	35.3	35.3	38.5	43.0	45.7	49.1	53.5
Transfers from rest of public sector	0.0	0.0	0.0	6.2	14.7	6.5	7.0	6.2	4.3	18.4	15.3	27.8	22.4
Other	4.9	4.5	6.9	5.3	6.0	7.0	4.1	3.2	8.3	0.5	11.7	3.9	19.5

a/ Includes B/. 12.5 Million accrued in 1979 but received in 1980.

b/ Includes discounting of income tax promissory notes issued by oil pipeline company.

Sources: Minister of Planning and Economic Policy, Comptroller General and IMF.

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Table 16

**CONSOLIDATED OPERATIONS OF THE DECENTRALIZED AGENCIES, 1977-83 <sup>a/</sup>**  
**(Millions of Balboas)**

	1977	1978	1979	1980	1981	1982	1983
<u>OPERATING REVENUE</u>	<u>17.8</u>	<u>34.7</u>	<u>43.2</u>	<u>54.5</u>	<u>64.1</u>	<u>67.1</u>	<u>111.8</u> <sup>b/</sup>
<u>OPERATING EXPENDITURES</u>	<u>43.7</u>	<u>58.8</u>	<u>76.1</u>	<u>83.9</u>	<u>92.7</u>	<u>112.8</u>	<u>115.7</u>
Interest payments	9.5	11.0	19.5	14.3	19.2	25.7	30.4
Other current expenditures	34.2	47.8	56.6	69.6	73.5	87.1	85.3
<u>OPERATING SURPLUS OR DEFICIT (-)</u>	<u>-25.9</u>	<u>-24.1</u>	<u>-32.9</u>	<u>-29.4</u>	<u>-28.6</u>	<u>-45.7</u>	<u>-3.9</u>
Current transfers (net)	21.0	26.8	27.1	26.3	27.7	41.5	32.0
Transfers from Central Government	21.0	26.8	27.1	30.7	32.7	45.8	36.4
Transfers to Central Government	0.0	0.0	0.0	-4.4	-5.0	-4.3	-4.4
<u>CURRENT ACCOUNT SURPLUS OR DEFICIT (-)</u>	<u>-4.9</u>	<u>2.7</u>	<u>-5.8</u>	<u>-3.1</u>	<u>-0.9</u>	<u>-4.2</u>	<u>28.1</u>
Capital transfers from Central Government	10.1	10.0	23.4	27.3	36.3	46.7	24.8
Transfers from Social Security Fund	12.0	12.1	0.0	10.9	14.2	16.7	4.8
<u>CAPITAL EXPENDITURE</u>	<u>62.1</u>	<u>67.0</u>	<u>44.2</u>	<u>60.6</u>	<u>65.6</u>	<u>99.9</u>	<u>57.2</u>
Fixed investment <sup>c/</sup>	49.2	45.6	19.9	17.4	32.1	57.5	45.1
Other	13.0	21.4	24.3	43.2	33.5	42.4	12.1
<u>OVERALL SURPLUS OR DEFICIT (-)</u>	<u>-45.0</u>	<u>-42.2</u>	<u>-26.6</u>	<u>-25.5</u>	<u>-16.0</u>	<u>-40.7</u>	<u>0.5</u>
External financing (net)	n.a.	n.a.	0.6	28.6	7.0	39.9	-15.4
National Bank financing (net)	n.a.	n.a.	26.0	-2.3	9.4	0.8	14.9
Other	n.a.	n.a.	0.0	-0.8	-0.4	0.0	n.a.

<sup>a/</sup> Includes the operations of the University of Panama, Human Development Institute (IFARHU), Agricultural and Marketing Institute (IMA), National Finance Corporation (COFINA), and National Mortgage Bank (BHN), and Agricultural Development Bank (BDA).

<sup>b/</sup> Includes B/. 34.0 million in proceeds of sale of hotel by COFINA.

<sup>c/</sup> Includes investment expenditures of the Housing Ministry.

Sources: Comptroller General, Ministry of Planning and Economic Policy, National Bank of Panama and IMF.

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**CONSOLIDATED OPERATIONS OF THE STATE ENTERPRISES, 1975-83 <sup>a/</sup>**  
**(Millions of Balboas)**

	1975	1976	1977	1978	1979	1980	1981	1982	1983
<b>OPERATING REVENUE</b>	<u>129.4</u>	n.a.	<u>159.1</u>	<u>183.7</u>	<u>234.9</u>	<u>361.9</u>	<u>427.1</u>	<u>436.0</u>	<u>501.1</u>
<b>OPERATING EXPENDITURES</b>	<u>97.1</u>	n.a.	<u>151.3</u>	<u>186.7</u>	<u>238.9</u>	<u>318.4</u>	<u>364.7</u>	<u>394.8</u>	<u>430.7</u>
Interest payments	n.a.	n.a.	34.6	50.9	61.2	68.8	67.0	60.5	64.7
Other current expenditures	n.a.	n.a.	116.7	135.8	177.7	249.6	297.7	334.3	366.0
<b>OPERATING SURPLUS OR DEFICIT (-)</b>	<u>32.8</u>	n.a.	<u>7.8</u>	<u>-3.0</u>	<u>-4.0</u>	<u>43.5</u>	<u>62.4</u>	<u>41.2</u>	<u>70.4</u>
Transfers net of taxes	n.a.	n.a.	-0.2	3.6	7.5	10.3	4.1	-13.9	-11.3
Current transfers from									
Central Government	0.5	n.a.	2.9	7.7	9.3	24.3	8.3	9.6	6.7
Transfers to Central Government	n.a.	n.a.	-3.1	-4.1	-8.1	-14.0	-4.2	-23.5	-18.0
<b>CURRENT ACCOUNT SURPLUS OR DEFICIT (-)</b>	<u>n.a.</u>	<u>n.a.</u>	<u>7.6</u>	<u>0.6</u>	<u>3.5</u>	<u>53.8</u>	<u>66.5</u>	<u>27.3</u>	<u>59.1</u>
Capital transfers	23.5	n.a.	35.4	56.8	98.5	84.3	42.7	20.7	17.7
<b>CAPITAL EXPENDITURE</b>	<u>136.8</u>	<u>n.a.</u>	<u>175.1</u>	<u>187.6</u>	<u>142.6</u>	<u>116.1</u>	<u>117.1</u>	<u>179.4</u>	<u>126.0</u>
Fixed Investment	n.a.	n.a.	175.1	187.6	142.6	116.1	117.1	180.3	120.0
Other	n.a.	n.a.	0.0	0.0	0.0	0.0	7.0	-0.9	0.0
<b>OVERALL SURPLUS OR DEFICIT (-)</b>	<u>-80.5</u>	<u>n.a.</u>	<u>-132.1</u>	<u>-130.2</u>	<u>-40.6</u>	<u>22.0</u>	<u>-7.9</u>	<u>-131.4</u>	<u>-49.2</u>
External financing (net)	53.5	n.a.	n.a.	n.a.	10.7	-23.1	-9.9	90.6	57.0
National Bank financing (net)	32.0	n.a.	n.a.	n.a.	30.2	1.2	17.9	40.9	-7.8
Other	0.0	n.a.	n.a.	n.a.	-0.3	-0.1	-0.1	-0.1	n.a.

**a/** Includes the operations of Hydraulic Resources and Electricity Institute (IHRE), National Telecommunications Institute (INTEL), National Water and Sewerage Institute (IDAAU), La Victoria Sugar Corporation, Colon Free Zone, Civil Aviation Authority, Tourism Institute, Bayano Cement Plant, and Port Authority.

**b/** Includes credit from FIVEN, PEMEX and IMF intermediated through the National Bank.

Sources: Comptroller General, Ministry of Planning and Economic Policy, National Bank of Panama and IMF.

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Table 18

OPERATIONS OF THE SOCIAL SECURITY AGENCY, 1971-83  
(Millions of Balboas)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
<b>CURRENT REVENUE</b>	<b>58.1</b>	<b>72.2</b>	<b>83.6</b>	<b>94.3</b>	<b>133.2</b>	<b>165.4</b>	<b>138.9</b>	<b>151.7</b>	<b>181.9</b>	<b>219.1</b>	<b>266.7</b>	<b>318.7</b>	<b>333.1</b>
Contributions	48.6	62.3	73.1	83.4	115.4	144.6	104.9	114.0	139.0	163.3	201.3	236.1	248.1
From workers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	48.0	52.4	65.4	78.5	93.7	109.4	n.a.
From employers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	51.1	55.4	66.9	80.3	99.5	117.7	n.a.
Other quotas	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.8	6.2	6.7	7.0	8.1	9.0	n.a.
Professional risk premium	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	7.9	8.5	10.4	12.9	15.7	19.4	17.7
Thirtieth month contribution	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.1	13.0	15.8	19.2	22.9	27.0	27.3
Contributions to public employees' compensation pension fund	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.1	5.6	6.6	8.3	10.2	11.4	13.1
Income from investments	8.6	8.6	9.1	9.3	10.9	12.0	6.7	6.4	4.2	6.8	11.3	14.8	15.0
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.2	4.2	5.9	6.1	5.3	10.0	11.9
<b>CURRENT EXPENDITURES</b>	<b>53.3</b>	<b>61.6</b>	<b>68.9</b>	<b>77.0</b>	<b>99.0</b>	<b>115.8</b>	<b>133.6</b>	<b>155.6</b>	<b>170.3</b>	<b>197.0</b>	<b>235.7</b>	<b>266.5</b>	<b>314.7</b>
Administration	5.1	6.0	6.4	7.1	7.4	6.2	9.0	10.9	9.8	11.4	12.3	16.4	21.9
Payments of benefits and other	48.2	55.6	62.5	69.9	91.6	109.6	124.6	144.7	160.5	185.6	223.4	250.1	292.8
<b>CURRENT OPERATING SURPLUS OR DEFICIT (-)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>5.3</b>	<b>-3.9</b>	<b>11.6</b>	<b>22.1</b>	<b>31.0</b>	<b>52.2</b>	<b>18.4</b>
Current transfers (net)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	9.9	15.4	20.0	16.6	35.1	35.6	40.9
Current transfer from Central Government	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.8	17.3	22.5	16.6	41.2	35.6	40.9
Transfers to Central Government	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-3.9	-2.1	-2.5	0.0	-6.1	0.0	0.0
<b>CURRENT ACCOUNT SURPLUS OR DEFICIT (-)</b>	<b>7.9</b>	<b>14.1</b>	<b>18.9</b>	<b>22.0</b>	<b>39.5</b>	<b>56.9</b>	<b>15.2</b>	<b>11.5</b>	<b>31.6</b>	<b>38.7</b>	<b>66.1</b>	<b>87.8</b>	<b>59.3</b>
<b>CAPITAL EXPENDITURES</b>	<b>3.8</b>	<b>5.0</b>	<b>4.5</b>	<b>5.2</b>	<b>3.9</b>	<b>7.8</b>	<b>17.6</b>	<b>18.6</b>	<b>9.0</b>	<b>23.7</b>	<b>63.2</b>	<b>95.4</b>	<b>47.5</b>
Fixed investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.6	4.7	6.0	4.3	5.5	8.9	4.8
Financial investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	2.0	1.8	3.0	6.0	4.9	9.0	14.9
Net lending to National Mortgage Bank	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	12.0	12.1	0.0	10.9	14.2	16.7	4.8
Housing program and others	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0	0.0	0.0	2.3	38.6	60.8	23.0
<b>OVERALL SURPLUS OR DEFICIT (-)</b>	<b>2.2</b>	<b>7.5</b>	<b>11.4</b>	<b>14.3</b>	<b>33.1</b>	<b>46.6</b>	<b>-2.4</b>	<b>-7.1</b>	<b>22.6</b>	<b>15.0</b>	<b>2.9</b>	<b>-7.6</b>	<b>11.8</b>
External financing (net)	0.0	10.0	-0.7	-2.4	-1.4	n.a.	n.a.	n.a.	-2.5	-1.3	21.8 <sup>a/</sup>	0.0	0.0
National bank financing (net)	-2.2	19.8	-0.9	15.4	21.4	n.a.	n.a.	n.a.	-20.1	-16.0	-24.7	7.6	-11.8
Other	0.0	-37.3	-9.8	-23.3	53.1	n.a.	n.a.	n.a.	n.a.	2.3	0.0	0.0	0.0

a/ Bonds placed domestically.

Sources: Social Security Agency, Comptroller General, Ministry of Planning and Economic Policy, National Bank and IMF estimates.

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Table 19: OPERATIONS OF THE NONFINANCIAL PUBLIC SECTOR, 1977-83

	1977	1978	1979	1980	1981	1982	1983
(Millions of Balboas)							
<b>REVENUE OF CONSOLIDATED PUBLIC SECTOR</b>	<b>537.1</b>	<b>595.0</b>	<b>708.2</b>	<b>1,032.6</b>	<b>1,177.3</b>	<b>1,274.1</b>	<b>1,405.8</b>
General government revenue	522.8	589.7	699.6	977.0	1,110.2	1,246.8	1,346.7
Central Government <sup>a/</sup>	365.1	403.3	474.5	703.4	779.4	861.0	n.a.
Social Security Agency	158.9	151.7	181.9	219.1	266.7	318.7	n.a.
Rest of general government	117.8	34.7	43.2	54.5	64.1	67.1	n.a.
Grants-in-aid	7.7	4.7	5.0	1.8	0.6	0.0	n.a.
Public enterprises current account surplus or deficit (-)	7.6	0.6	3.6	53.8	66.5	27.3	99.1
Of which: interest payments	34.6	50.9	61.2	68.8	67.0	n.a.	n.a.
<b>EXPENDITURE OF CONSOLIDATED PUBLIC SECTOR</b>	<b>807.7</b>	<b>960.7</b>	<b>1,054.2</b>	<b>1,229.3</b>	<b>1,391.8</b>	<b>1,736.1</b>	<b>1,670.5</b>
General government current expenditure	495.5	620.6	750.6	915.3	1,021.9	1,217.7	1,262.6
Central Government <sup>a/</sup>	318.2	406.1	504.2	634.4	693.5	838.4	n.a.
Social Security Agency	133.6	155.6	170.3	197.0	235.7	266.5	n.a.
Rest of general government	43.7	58.8	76.1	83.9	92.7	112.8	n.a.
Capital expenditure	312.2	340.2	303.6	314.0	369.9	318.4	407.9
Fixed investment	297.2	317.0	276.3	264.8	331.5	486.1	n.a.
Net lending to private sector	15.0	23.2	27.3	49.2	38.4	32.3	n.a.
<b>CONSOLIDATED PUBLIC SECTOR SAVINGS <sup>b/</sup></b>	<b>411.6</b>	<b>-25.5</b>	<b>-42.4</b>	<b>117.3</b>	<b>155.4</b>	<b>56.4</b>	<b>143.2</b>
<b>OVERALL DEFICIT OF CONSOLIDATED PUBLIC SECTOR</b>	<b>-270.6</b>	<b>-365.7</b>	<b>-346.0</b>	<b>-196.7</b>	<b>-214.5</b>	<b>462.0</b>	<b>264.7</b>
Overall surplus or deficit (-) of nonconsolidated public sector	133.1	-11.5	15.4	12.6	6.6	-2.0	17.6
<b>OVERALL DEFICIT OF PUBLIC SECTOR</b>	<b>-257.5</b>	<b>-377.2</b>	<b>-330.6</b>	<b>-184.1<sup>d/</sup></b>	<b>-207.9</b>	<b>-464.0</b>	<b>-247.3</b>
External financing	281.9	479.5	196.1	227.6	208.7 <sup>e/</sup>	495.6 <sup>e/</sup>	238.4 <sup>e/</sup>
National Bank	-21.5	-100.7	139.9	-40.5	-0.8 <sup>e/</sup>	-31.6 <sup>e/</sup>	-31.1 <sup>e/</sup>
Other <sup>e/</sup>	8.1	-1.6	-5.4	-3.0	n.a.	n.a.	n.a.
(Annual percentage change)							
Revenue of consolidated public sector	15.8	10.8	19.0	45.8	14.0	8.2	10.3
Expenditure of consolidated public sector	-3.5	18.9	10.0	16.6	13.2	24.7	-3.8
Current expenditure of general government	6.5	25.2	21.0	21.9	11.6	19.2	3.7
Capital expenditure	-16.3	9.0	-10.1	3.4	17.8	40.1	-21.3
(As per cent of GDP)							
Revenue of consolidated public sector	25.9	24.3	25.3	29.4	31.0	30.2	32.8
Expenditure of consolidated public sector	39.0	39.2	37.6	35.0	36.7	41.2	39.0
General government current expenditure	23.9	25.3	26.8	26.1	26.9	28.9	29.5
Capital expenditure	15.1	13.9	10.8	8.9	9.8	12.3	9.5
Consolidated public sector savings	2.0	-1.0	-1.5	3.3	4.1	1.3	3.3
Overall public sector deficit	-12.4	-15.4	-11.8	-5.2	-5.5	-11.0	5.8

<sup>a/</sup> Excludes transfers to and from the rest of the general government.

<sup>b/</sup> Includes grants-in-aid

<sup>c/</sup> Includes bonds placed locally.

<sup>d/</sup> Includes net disbursements of the IMF, FIVEN and FOMEX (intermediated through the National Bank, net).

<sup>e/</sup> Net.

Sources: Comptroller General, Ministry of Planning and Economic Policy and IMF.

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Table 20  
CENTRAL GOVERNMENT AND SOCIAL SECURITY REVENUES, 1971-83  
(Millions of Balboas and Percent)

Year	Tax Revenues (A)	Non-tax Revenues (B)	Total Central Government (C)	Social Security Contributions (D)	Total Taxation (A + D)	Nominal GDP (E)	A as percent of E	A and D as percent of E	Annual Growth Rates (percent per annum)			
									A	D	A + D	E
									<u>1971-83</u>			
1971	145.0	36.1	181.1	48.5	193.5	1,151.9	12.6	16.8	13.8	16.6	14.6	11.8
1972	157.5	40.4	197.9	62.3	219.8	1,264.9	12.5	17.4				
1973	175.4	49.6	225.0	73.1	248.5	1,446.4	12.1	17.2				
1974	214.3	53.7	268.0	83.4	297.7	1,654.1	13.0	18.0				
1975	231.0	66.1	297.1	115.3	346.3	1,840.8	12.5	18.8	12.3	24.2	15.7	12.4
1976	233.5	61.5	295.0	120.4	353.9	1,956.3	11.9	18.1				
1977	303.3	65.7	369.0	129.0	432.3	2,069.8	14.7	20.9				
1978	338.8	66.6	405.4	141.1	479.9	2,452.5	13.8	19.6				
1979	405.1	71.9	477.0	171.8	576.9	2,800.2	14.5	20.6	20.2	12.6	17.7	12.7
1980	537.8	170.0	707.8	206.2	745.0	3,558.8	15.1	20.9				
1981	611.1	179.4	790.5	250.1	861.2	3,878.0	15.8	22.2				
1982	645.2	220.1	865.3	293.9	939.1	4,287.1	15.0	21.9				
1983	683.9	222.3	906.2	306.2	990.1	4,369.6	15.7	22.7	8.3	14.1	9.9	7.1

<sup>a/</sup> Including professional risk premium, thirteenth month contribution and contributions to public employees' compensation pension fund.

Sources: Comptroller General and IMF.

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