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A WORLD BANK COUNTRY STUDY

PANAMA

Structural Change and Growth Prospects

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PREFACE

The World Bank periodically prepares country economic reports that provide a basis for the dialogue between member Governments and the Bank on macro and sector policies, investment priorities and Bank assistance to the country. While circulation of these reports is normally restricted to member Governments of the Bank and international organizations concerned with development problems, the Government of Panama has agreed to make this report available to a wider audience as an important contribution to the ongoing discussions of its economic adjustment process.

The present report is based on the findings of a mission that visited the country in March 1984 and on subsequent updating of those findings. It was prepared during a time of intense and fruitful dialogue between the Government of Panama and the World Bank concerning the most appropriate economic policies to enable Panama to meet the challenges of the 1980's. These challenges are indeed serious. Panama faces the need to fundamentally reorient its economy at a time when the world economic environment is more hostile than in previous decades, and when it is facing an acute scarcity of international credit. The country's previous sources of growth -- the public sector and internationally oriented services -- can no longer provide the dynamism required to address Panama's mounting unemployment. Renewed growth therefore depends upon greater dynamism in agriculture and industry, geared towards exports and fuelled by private investment. This in turn implies building upon the country's considerable assets as a commercial and financial center, located at the crossroads of world trade, through deepening and expanding the economic adjustment process to which a good beginning has been made. This report concludes that, while there is no guarantee of success, an open economy growth strategy, combined with a coherent and well planned fiscal policy, has by far the best chance of encouraging the right kind of export-oriented, labor intensive investment.

The Bank and Government hope that the report will prove valuable to a wide audience interested in Panama's economic development and in the wider problems of structural adjustment. The findings and recommendations of the report, however, remain the responsibility of its authors.

A. David Knox
Vice President
Latin America and the Caribbean
Regional Office

SYNOPSIS

Panama's first democratically elected Government in 16 years faces a serious economic situation. The principal growth sources since 1970—the public sector and internationally oriented services--have dried up. The public sector is tightly constrained by external debt obligations while services rely heavily on the depressed Latin American market. High and rising unemployment could soon become a divisive social issue. Panama's medium term prospects of renewed growth depend upon greater dynamism in agriculture and industry, geared towards exports and fueled by private investment. This in turn implies building upon the country's considerable assets as a commercial and financial center, located at the crossroads of world trade, through deepening and expanding the structural adjustment process to which a good beginning has been made. This report concludes that, while there is no guarantee of success, an open economy growth strategy, combined with a coherent and well planned fiscal policy, has by far the best chance of encouraging the right kind of export-oriented, labor intensive investment. The likely alternative is continued stagnation, increasing strain on the social fabric, and erosion of Panama's creditworthiness.

This report is based on the findings of an economic mission which visited Panama in March 1984, comprised of Robert Lacey (Chief), Desmond McCarthy (Macroeconomic analysis), Thorkild Juncker (Young Professional), James Loome (Research Assistant), Maria Teresa Rodrigo (Secretary), and James E. Austin and David Flood (Consultants). The report also incorporates the work of other missions during that period especially those of Mario Reyes Vidal (Industry), Eric Shearer (Consultant, Agriculture), and Aura Garcia de Truslow (Urban Planning), and of subsequent updating missions. The Report was discussed with the Government in October, 1984.

CURRENCY EQUIVALENTS

Currency Unit = Balboa (B/.)
US$1 = B/.1

Note: The issue of Balboas is restricted to coins. The US Dollar (US$) is accepted as currency.

Fiscal Year

January 1 - December 31

WEIGHTS AND MEASURES

Metric System

GLOSSARY OF ABBREVIATIONS

APN	-	Autoridad Portuaria Nacional (National Port Authority)
BDA	-	Banco de Desarrollo Agropecuario (Agricultural Development Bank)
BDC	-	Bayano Development Corporation
BHN	-	Banco Hipotecario Nacional (National Mortgage Bank)
BNP	-	Banco Nacional de Panama (National Bank of Panama)
CALV	-	Corporacion Azucarera La Victoria (La Victoria Sugar Corporation)
CAT	-	Certificado de Abono Tributario (Tax Credit Certificate)
CBI	-	Caribbean Basin Initiative
CFZ	-	Colon Free Zone
CNI	-	Consejo Nacional de Inversiones (National Investment Council)
COFINA	-	Corporacion Financiera Nacional (National Finance Corporation)
CSS	-	Caja de Seguro Social (Social Security Agency)
DFC	-	Development Finance Corporation
DICOMEX	-	Direccion de Comercio Exterior (Foreign Trade Directorate)
ENASEM	-	Empresa Nacional de Semillas (National Seed Corporation)
ENDEMA	-	Empresa Nacional de Maquinaria (National Machinery Pool)
FIVEN	-	Fondo de Inversiones Venezolano (Venezuelan Investment Fund)

IDAAN	-	Instituto de Acueductos y Alcantarillados Nacionales (National Water and Sewerage Institute)
IDB	-	Inter-American Development Bank
IDIAP	-	Instituto de Investigaciones Agropecuarios (Agriculture Research Institute)
IFARHU	-	Instituto para el Fomento y Adiestramiento de los Recursos Humanos (Human Resources Development Institute)
IMA	-	Instituto de Mercadeo Agropecuario (Institute of Agricultural Marketing)
IMF	-	International Monetary Fund
INTEL	-	Instituto Nacional de Telecomunicaciones (National Telecommunications Institute)
IRHE	-	Instituto de Recursos Hidraulicos y Electricos (Hydroelectric Resources Institute)
ISA	-	Instituto de Seguros Agricolas (Crop Insurance Institute)
MICI	-	Ministerio de Comercio e Industria (Ministry of Commerce and Industry)
MIDA	-	Ministerio de Desarrollo Agropecuario (Ministry of Agriculture and Livestock Development)
MIPPE	-	Ministerio de Planificacion y Politica Economica (Ministry of Planning and Economic Policy)
MIVI	-	Ministerio de Vivienda (Ministry of Housing)
ODAC	-	Oficina de Desarollo del Area del Canal (Office of Canal Area Development)
ORP	-	Oficina de Regulacion de Precios (Price Regulation Office)
PCV	-	Programa Colectiva de Vivienda (Collective Housing Program)
SAL	-	Structural Adjustment Loan
SDR	-	Special Drawing Rights of IMF
USAID	-	U.S. Agency for International Development

PANAMA - ECONOMIC DATA

GNP per capita, 1983: US$1,940

GROSS NATIONAL PRODUCT IN 1983	US$ Million	%	1970-75	1975-80	1980-83
			ANNUAL RATE OF GROWTH (% in constant prices)		
GDP at Market Prices	4,369.6	100.0	4.7	6.3	3.3
Gross Domestic Investment	1,103.6	25.3	6.6	0.2	2.4
Gross National Savings	918.4	21.0	4.2	1.5	-3.0
Current Account Balance	-185.2	4.2	-	-	-
Export GNFS	1,805.0	41.3	3.8	10.4	3.2
Import GNFS	1,709.7	39.1	4.6	4.8	-3.6

VALUE ADDED IN 1983
(constant 1970 prices)

	US$ Million	%	1970-75	1975-80	1980-85
			ANNUAL RATES OF GROWTH		
Agriculture	194.6	10.1	1.2	1.8	3.9
Industry and Mining	180.5	9.4	3.0	4.3	-1.1
Services	1,547.3	80.5	5.6	7.2	3.7
Total	1,922.4	100.0	4.9	6.3	3.3

GOVERNMENT FINANCE

	PUBLIC SECTOR		CENTRAL GOVERNMENT		
	US$ millions	% of GDP	US$ millions	% of GDP	
	1983	1977	1983	1977	1983
Current Revenues	1,405.8	26.0	906.2	17.8	20.7
Current Expenditures	1,262.6	24.0	909.5	17.1	20.8
Current Savings	143.2	2.0	-3.3	0.7	-0.1
Capital Expenditures	390.5	14.4	224.5	5.6	5.1
Overall Deficit (-)	247.3	-12.4	-227.8	-6.3	-5.2

PRICES AND WAGES
(Annual Percentage Increases)

	1979	1980	1981	1982	1983
Whole prices	14.0	15.4	10.0	8.3	2.8
Cost of Living	8.0	13.8	7.3	4.2	3.6
Average wages	6.3	11.2	4.2	6.2	n.a.
Real wages	-1.6	-2.3	-3.0	1.8	n.a.

PANAMA: TRADE, PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS
(Millions of $US)

	Actual				Preliminary
	1980	1981	1982	1983	1984
Exports of Goods and Services (NF)	1,567.2	1,690.5	1,782.7	1,805.0	1,785.7
of which merchandise f.o.b.	526.0	493.5	488.2	436.7	404.8
Imports of Goods and Services (NF)	1,684.8	1,858.2	1,883.2	1,709.7	1,488.8
of which merchandise f.o.b.	1,342.3	1,469.5	1,496.3	1,353.0	1,148.8
Net Transfers	12.7	29.1	35.1	39.6	45.0
Investment Income (Net)	-283.2	-275.6	-372.1	-320.1	-367.5
Current Account Balance	-388.1	-414.2	-437.5	-185.2	-70.6
Official Capita (Net)	223.8	203.9	509.1	295.6	250.4
Amortization	263.3	316.4	400.9	268.8	n.a.
Disbursement	487.1	520.3	910.0	564.4	n.a.
Other Official Transactions (Net)	39.1	-36.9	3.0	-88.2	20.1
Private Capital (Net)	149.1	303.4	52.4	-41.6	-120.1
Net Errors and Ommissions and Undentified Flows	-23.9	-56.2	-127.0	19.4	-79.8

EXTERNAL TRADE

	1978	1978	1979	1980	1981	1982	1983	1984
Merchandise Exports fob	370.3	11.2	3.5	5.7	7.3	2.9	-14.0	2.1
Primary	135.5	3.6	3.2	0.3	-3.4	-11.6	18.2	0.8
Manufactures & other	234.8	23.0	3.8	19.4	-16.4	10.6	-36.3	3.4
Merchandise Imports fob	853.8	13.3	3.6	8.1	-0.2	0.6	-11.9	-4.4
Petroleum	219.2	-4.0	11.9	-14.1	-14.9	-4.3	-6.3	-1.8
Machinery and Equipment	188.8	32.9	-6.6	15.6	14.2	9.3	-28.0	-13.0
Manufactures	356.2	31.6	-2.4	9.4	-1.1	-5.4	-25.4	-1.5
Others	89.6	-39.0	22.4	45.6	9.2	0.9	0.7	-1.5
PRICES								
Export Price Index		100.0	115.5	118.2	120.3	115.1	117.4	121.2
Import Price Index		100.0	121.3	126.6	139.0	141.4	142.9	144.9
Terms of Trade Index		100.0	95.2	93.4	86.5	81.4	82.2	83.6

Composition of Merchandise Trade (%)
(at Current Prices)

	1960	1970	1975	1980	1985
Exports	100.0	100.0	100.0	100.0	100.0
Primary	73.9	74.2	44.6	39.0	32.9
Others	26.1	6.0	55.4	61.0	67.1
Imports	100.0	100.0	100.0	100.0	100.0
Petroleum	9.9	19.0	34.4	31.1	29.6
Machinery & Equipment	22.1	27.5	29.0	19.4	21.8
Others	68.0	53.5	36.6	49.5	48.6

EXTERNAL DEBT, DECEMBER 31, 1983
(Millions of $US)

Public External MLT Debt Outstanding	3,405.3
Total Service Payments	463.6
Interest	275.8
Amortizations	187.8
Service Payments as % of GNFS Exports	25.7
Service Payments as % of Public Sector Revenue	33.0

PANAMA

Structural Change and Growth Prospects

Volume I: Main Report

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This report is based on the findings of an economic mission which visited Panama in March 1984, comprised of Robert Lacey (Chief), Desmond McCarthy (Macroeconomic analysis), Thorkild Juncker (Young Professional), James Loome (Research Assistant), Maria Teresa Rodrigo (Secretary), and James E. Austin and David Flood (Consultants). The report also incorporates the work of other missions during that period especially those of Mario Reyes Vidal (Industry), Eric Shearer (Consultant, Agriculture), and Aura Garcia de Truslow (Urban Planning), and of subsequent updating missions. The Report was discussed with the Government in October, 1984.

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SUMMARY OF MAJOR CONCLUSIONS

i. On October 11, 1984 Panama's first democratically elected Government in 16 years took office. It confronts a serious economic situation. Real per capita output has stagnated since 1980, and GDP since 1982. The principal growth sources since 1970--the public sector and the internationally-oriented service sector--have dried up. The public sector is under a severe financial constraint: it must service, under conditions of acute scarcity of commercial credit, an external debt of 73 percent of GDP, larger in relative terms than those of Argentina, Brazil or Mexico. The export-oriented service sectors are heavily dependent on the Latin American market; they are therefore unlikely to recover dynamism until a regional recovery takes place. High and rising urban unemployment, perhaps the major economic problem the country faces, could soon become a divisive social issue. Given the moderate growth prospects for services, more rapid expansion must be centered in the directly productive sectors of agriculture and industry. The entrepreneurial initiative and investment finance for this must come from private sources rather than the financially weakened public sector. Moreover, the domestic market is small and largely saturated; merchandise exports must therefore become the engine of growth.

ii. The encouragement of the appropriate blend of export-oriented, labor intensive activities requires: (i) a major overhaul of the structure of incentives which is currently geared towards import substitution and results in the minimization of employment; (ii) a leaner, more efficient public sector, both to ease Panama's severe fiscal burden and release resources for private investment; and (iii) specific reforms to tackle individual sectoral inefficiencies. Because it uses the US dollar as a medium of exchange, Panama cannot exercise the option of compensating exporters through exchange rate adjustment. All sources of high cost and inefficiency must therefore be tackled individually.

iii. Parallel with a severe program of fiscal stabilization and austerity, the Government has begun to address these issues through a series of fundamental reforms. After successfully carrying out important initial measures, the Government needs now to broaden and deepen this adjustment process to improve the investment climate, address labor market rigidities and promote efficient resource allocation.

A. Macroeconomic Policy

iv. Export expansion by the goods sectors is now vital. The World Bank's macroeconomic projections show that continued reliance on the service sector alone will not generate sufficient growth to permit significant increases in real per capita consumption or to absorb the rising labor force, even under favorable international conditions. This requires a thorough revision of the current structure of incentives. The current bias towards import substituting activities for a small, protected market must be reversed, and exporting made at least as profitable. This can effectively be accomplished by a general opening of the economy to international competition, thereby permitting entrepreneurs to obtain raw materials and intermediate goods at close to international prices. Indeed, those economies that have tried to graft an efficient export sector onto a virtually unchanged import substituting one have met with very mixed success. This is because the high costs and inefficiencies in the protected parts of the economy inevitably erode the competitiveness of the exporters. By contrast, where general, open economy policies have been followed, the results have often exceeded the expectations of the policies' most enthusiastic advocates. This is not to say that success is guaranteed; on the contrary, an export-oriented, market based strategy is by definition a step into the unknown. But experience elsewhere, particularly in small economies with a powerful entrepot tradition to build upon, indicates that it is the best way to break out of the vicious circle of high costs and stagnation.

v. To become a successful exporter, however, it is not enough to restructure incentives. All the inefficiencies and sources of high costs which pervade the economy must be addressed if the goods sectors are to compete internationally. Here a distinction may be made between non-tradable and tradable goods and services. Among the non-tradables, the experience of successful exporters shows that cheap, reliable, basic public services, such as electricity, water and telecommunications, are a cornerstone of development strategy. In Panama, their cost must be brought down. This must be tackled through reducing the operating costs of the entities concerned. Similarly, the cost of export related services such as the ports and land transportation needs to be reduced. This can be achieved through improvements in infrastructure and equipment, increasing operating efficiency through concessions to the private sector under competitive conditions, and through institutional reforms aimed at ending restrictive practices which pass high costs onto the user.

vi. In the case of tradable goods, examples abound in the Panamanian economy of very high prices for staple goods; this inevitably adds to upward cost pressures. Cement is produced domestically at over twice world costs and sold to the consumer at three times world prices; farmers pay a high price for fertilizers and chemical pest controls; the ex-refinery price of most petroleum products is about a third above that of other refineries in the Caribbean area; the high cost and inefficient agricultural and agroindustrial sectors, subsidized through high support prices and import restrictions, lead to upward pressure on urban wages, reinforcing labor market rigidities and high social security charges; and local industry, protected from outside competition, sells most of its products at prices well in excess of world levels. Ultimately, these costs can only be brought down through exposing the sectors concerned to international competition. Clearly this needs to be done gradually to minimize the disruptive impact on employment; however, it must be done if the economy is to become competitive. Panama can no longer afford the luxury of subsidizing these activities.

vii. The formidable array of bureaucratic controls on prices and marketing, particularly in agriculture and agroindustry, also needs to be dismantled since it constitutes a barrier to potential exporters. Exporters have to pass through some eight or ten complex administrative procedures in the case of many product groups; often the only legal way to overcome these barriers is to export through the state marketing institute, IMA.

viii. A revised development strategy and incentive system will require complementary investment if it is to be successful. However, the quality of the investment is much more important than its quantity. Panama has had very high levels of investment, averaging over 20 percent of GDP since 1970, but this has not laid adequate foundations for future expansion. Much of it was concentrated in the state sector, while a significant proportion of private investment was geared to the local market in activities heavily subsidized, directly or indirectly, by the State. The productivity of the new capital was consequently low. New private investment needs to be encouraged in export-oriented, employment intensive activities, with much higher output per unit of capital spent.

ix. To achieve this, the investment climate must be improved. This is not only a matter of an appropriate legal framework and incentives; confidence must be engendered in the permanence of the new policy and "rules of the game". This can only be inculcated through public commitment, both at the highest political level and by the newly elected legislature, and through a well planned campaign of "public education" showing the necessity for, and the advantages of, the new policy framework. For local investors even this may not be enough, at least initially. Efforts to attract foreign investment through the National Investment Council and similar initiatives must therefore be intensified. These could be linked to the identification and dissemination of opportunities in the US market arising from the Carribean Basin Initiative. Successful export projects require not merely capital but entrepreneurship, technology, management skills and an appropriately trained labor force as well. This is particularly so for the relatively high value products on which Panama will have to concentrate, given its comparatively high labor costs.

B. Employment

x. Unemployment is, without doubt, the gravest economic and social problem currently facing Panama's policy makers. The officially estimated unemployment rate is some 10 percent nationwide and 12 percent in the Panama City/Colon Metropolitan Area, both all-time highs. The deterioration is accelerating and the long term unemployment rate has doubled since the mid-1970s. The projections in this report show, moreover, that there are likely to be many unemployed in the medium term even given a moderate economic recovery. A realistic assessment of growth prospects, and of the possibilities of increasing employment in the short term, indicates that there could well be some 100,000 people unemployed by the late 1980's. Not only is this a threat to the social fabric; it also means that one of Panama's most important comparative advantages--its relatively skilled, productive and frequently bilingual labor force--is increasingly untapped. To meet this social and economic challenge, drastic and rapid action needs to be taken to modify the legal and institutional framework in which the labor market operates.

xi. A coherent attempt should be made to encourage employment by reducing the perceived costs associated with it. Social Security contributions and other social charges, which have more than doubled since 1970, must not be allowed to increase further, and ways should be sought to reduce them. Employment may also be encouraged by reducing effective subsidies on the use of labor substitutes, e.g. duty exonerations on imported capital equipment and accelerated depreciation allowances.

xii. However, such considerations are relatively marginal compared to the rigidities of labor legislation which are the principal cause of a perceived high cost of employment by entrepreneurs. Despite being a highly sensitive political issue, major and economy-wide modifications of the Labor Code are a sine qua non if Panama is to expand production for export at the rate necessary to absorb the growing labor force. This is unlikely to be achievable through changes to individual clauses by presidential decree. The Code is a weighty document, skillfully put together, with mutually reinforcing articles and clauses. To make it compatible with rapid employment generation would require major revisions. These should concentrate on removing the obstacles to rewarding productivity and introducing greater flexibility in the hiring and dismissal of workers. Specifically, employers should be permitted to lay off labor in response to market conditions and also to supplement the labor force with temporary workers when demand is high.

xiii. These reforms should be accompanied by measures to assist the self employed to fend for themselves. This would be preferable to further special employment programs which would burden an already tight budget, or to relief transfers which would do the same and engender a feeling of dependency among the beneficiaries. The opportunities for the self-employed, already 200,000, would be enhanced by technical assistance, credit, and sites for artisanal activities and small business, as well as by support for cottage industries. They would also benefit from proposed reforms to industrial incentives legislation which tends to favor the strong and the influential. For example, much protection and most incentives are currently granted through the mechanism of individual Contracts with the Nation; the resources required to negotiate and obtain them are frequently beyond the means of small enterprises.

C. Agriculture and Agroindustry

xiv. While the rural sector is unlikely to become an important generator of jobs, a more efficient agriculture has a vital role to play in reducing upward pressure on wage costs. Lower support prices and a more liberal agricultural trade regime would ensure a lower cost supply of food and inputs for the urban area.

xv. However, despite some recent reforms, Panama's agricultural strategy remains based upon the goal of self sufficiency with little regard paid to economic and financial cost. In addition, the Authorities have sought, since the late 1960's, to transfer resources principally to the beneficiaries of land reform, who constitute only one fifth of the rural poor. To accomplish these objectives, a wide variety of state institutions was created or reinforced, to grant subsidized credit, market agricultural output, provide subsidized inputs and engage in direct production. To complement the activities of these institutions, the Government retains strict control over the prices of nearly all agricultural inputs and outputs and over foreign trade in most agricultural and agroindustrial products.

xvi. The results of this strategy have been less than successful. The average rate of growth of agricultural output since 1970 has been less than two percent per year; real average per capita production in 1980-83 was 2 percent less than in 1969-71. Moreover, 85 percent of the volume increase was in sugar cane following loss-making public investments in four sugar mills in the mid 1970's.

xvii. State intervention has tended to favor those subsectors (e.g. sugar and rice) where Panama's comparative advantage is not strong. By contrast, where potential does exist, it is often hampered by bureaucratic intervention or by inappropriate pricing policies. Panama's possibilities for expanding exports lie principally in (a) salt-water, farm-bred shrimp for which production capacity could be profitably quintupled within a very few years; (b) dual purpose semi-intensive cattle raising in the central and western coastal plains and foothills; (c) small scale, labor intensive production of tropical export crops (e.g. coffee, cacao), and of temperate zone vegetable and fruit crops in the upper altitudes; (d) equally small scale labor-intensive growing of selected vegetable and fruit crops with irrigation near the rivers of the central provinces; and (e) development of the country's considerable forestry potential. Movement toward this, or a similar output pattern, would also be socially desirable in that it reduces the importance of crops with marked seasonality of employment, such as sugar cane.

xviii. For this potential to be more fully realized, this report develops four general guidelines to help the Government reorient its agricultural strategy towards a new period of growth. First, support prices should be lowered until they approach internationally competitive levels. This should improve resource allocation and reduce costs to the consumer. In particular, immediate action should be taken to reduce the high support price for rice, which is threatening the financial stability of the state marketing institute, IMA. Second, the State should refrain from entering into direct production in competition with the private sector wherever competitive conditions prevail. The possibilities of privatizing existing state production should be considered on a case-by-case basis. Third, price controls should be reduced on agricultural and agroindustrial inputs and outputs. They not only lead directly to the misallocation of resources; their administration inevitably spreads into control of exports and imports, thereby impeding expansion of export-related activities. Price controls can be justified only to mitigate the social effects of an actual or impending scarcity of a mass consumption good. Panama's open economy in principle guarantees that such scarcities cannot arise provided the Government liberalizes commerce and does not interfere with the market. Fourth, a significant obstacle to export-oriented private investment in agriculture is uncertainty about the continuity of any given economic policy measure or set of measures. The creation of a climate of certainty would likely do more for stimulating private investment than many incentive measures. Investors and entrepreneurs need stable "rules of the game" long enough to promise a reasonable rate of return on their investment.

D. Industry, Trade Policy and Export Related Services

xix. The Government has already made significant progress in reorienting incentives for the urban, industrial sector. Nearly half of all quantitative restrictions on imports were removed by 1984, and very few will remain after March, 1985. While this is an important first step, the program will continue. In particular, the Cabinet has approved a draft Industrial Incentives Law, incorporating a generalized system of incentives, tariff reductions and other key reforms, which would be solidified by Legislative approval.

xx. To complement these, the Authorities could take a number of specific actions to enhance industrial export prospects. First, they may wish to increase public awareness of their new trade and industrial policy. This would reduce uncertainty and accelerate the desired reallocation of resources. Second, institutional support for exporters could be increased. Third, the Caribbean Basin Initiative (CBI) will benefit Panama's export drive provided the promotional institutions, such as the National Investment Council, familiarize themselves with CBI rules, provide updated information to investors and coordinate with promotion agencies in other beneficiary countries to explore possibilities of obtaining economies of scale through joint operations. The potential vanguard of Panama's CBI response could be the experienced and successful traders of the Colon Free Zone (CFZ). The Zone merchants also require information concerning the CBI's detailed trade provisions, and this information should be channelled to them on a systematic basis.

xxi. There is considerable scope for expansion of free zone and export-oriented industrial activities in the reverted Canal Area. To develop this potential, a number of interrelated policy changes are required. First, the urban planning process must be considerably strengthened to provide necessary technical input for a coherent land use policy. Second, use could be made of a variety of instruments to allow private exploitation of the assets without losing national ownership. These include long-term leases and concessions as well as short term rentals. Third, the Canal Area and related assets could present an important but untapped source of fiscal revenue. If the present process of allocation, almost wholly to the public sector, continues, they will instead become a fiscal drain. The previous functions of the defunct Canal Authority could be vested in the Ministry of Finance, as the overall administrator of the nation's assets. The Ministry would then be responsible for processing requests for land allocation, with sufficient powers to resist further public sector encroachment. Further, the current practice of renting both buildings and land at well below market rates should cease. Instead, leases should be auctioned to the highest bidder consistent with land use zoning policies. Lease agreements should contain rental escalation clauses. Rents charged on already allocated assets, to either public or private sector tenants, should be reviewed and, if necessary, increased to current market values. Fourth, encouragement could be given to private developers to urbanize underdeveloped lands and provide basic sites and services. They could recoup their investment through subletting. Fifth, a strategy could be developed to minimize the impact of release of the reverted areas on existing land values. This could include the rent or sale of assets at their full market value and also the use of techniques such as zoning requirements and coordinated timing of land releases, preannounced to reduce market uncertainty.

xxii. In principle, Panama's geographic position and international transport infrastructure should provide a springboard for the expansion of goods exports. In practice, this potential cannot be fully tapped because of a number of institutional deficiencies and cost disadvantages. First, Panama's ports require improved management, equipment and layout. Second, other institutional factors in the transport sector, such as monopoly practices in land transportation, not only increase costs to the user but reduce operational flexibility and limit technological initiative. Since the container revolution, Panama has lost most of the transshipment business related to Canal traffic to neighboring ports, while use of the Trans-Isthmian land bridge, which could have considerable potential, is very limited. While there is a need to modernize port equipment, the role of the public sector should be limited to the provision of basic infrastructure. Port operation and management, particularly container transshipment, would likely be more efficiently handled by private sector concessions operating under competitive conditions. This would help to reduce port tariffs and operating costs and increase the rate of port throughput. On all these counts, Balboa and Cristobal currently compare unfavorably with other ports of the Region. A study is already underway to address these issues and determine the possible role of the Trans-Isthmian railroad in container transshipment. Action should be taken urgently to end monopoly practices in the trucking industry which result in very high tariffs, thereby hurting Panamanian exporters and reducing the potential for the development of intermodal transport operations across the Isthmus. Barriers on entry to the trucking industry should be removed, and the prohibition on the operation of foreign truckers lifted. The economies of scale in transportation, particularly containers, are highly significant. Should these recommended reforms result in a significant increase in transshipment operations and related activities in the Canal ports and across the Isthmus, they would likely result in both reduced unit port costs and cheaper and better shipping options for Panamanian exporters.

E. Public Finances

xxiii. Thanks to a strict austerity program, the Government restored fiscal stability in 1983 after controls on public expenditure had been loosened in the previous year. In 1983, the consolidated deficit was reduced from 11 percent to under 6 percent of GDP, with a similar target for 1984. This program was supported by a two year Standby Arrangement with the IMF.

xxiv. In the coming years, the public sector will be under considerable financial strain. While revenues are depressed by sluggish economic performance, debt servicing obligations are very high. From 1985 through 1987, Panama's commercial amortization obligations total nearly US$1.5 billion, while interest obligations will likely reach about US$360 million per year, equivalent to over a quarter of consolidated public sector revenues. Recent gains therefore, need to be consolidated in order for the Government to meet this onerous burden and, at the same time, finance the minimum amount of public investment to achieve its development goals. This will require consistent and continued fiscal discipline, such as Panama has not achieved for several decades. Reducing the public sector's role in the economy, will lessen the fiscal burden, increase the availability of scarce commercial credit for the private sector, and raise the productivity of investment.

xxv. Panama's public savings must be considerably increased. The Authorities should aim to increase them from the current 3.5 percent of GDP to at least 5 percent within the next three years. Without important changes on both the revenue and the expenditure sides, the prospects for achieving this are, at best, mixed. While the expected windfall from the La Fortuna Hydroelectric Project and the Trans-Isthmian Oil Pipeline should provide some financial relief to the Government, they may be offset by increased current expenditures in low cost housing and make-work employment programs as well as, eventually, increased social security obligations. Projections indicate that these latter could impose a very large fiscal burden in the medium term since the Social Security Agency's own reserve is unlikely to earn a sufficient financial return to meet future obligations to beneficiaries. To meet these outlays, strict control on all expenditures must be maintained and strengthened. Public investment could be reduced from the current 9 percent of GDP by concentrating it on vital projects which directly contribute to the Government's strategy. Studies should be undertaken to determine the extent to which state monopolies, such as utilities and ports, can reduce their operating costs without prejudicing their financial health. The five year program of eliminating subsidies to decentralized agencies should be vigorously pursued; this means seeking economies in higher education and reform of agricultural pricing and credit policies which impose heavy financial burdens. Central Government expenditures could be contained through continued austerity and a freeze on recruitment.

xxvi. The benefits of many of these actions will only be felt in the medium term. In the meantime, extra revenue should be sought through improved tax administration, especially in the Customs, where substantial sums are lost each year in the form of uncollected duties. Going beyond that to the introduction of new taxes carries the risk of deferring private sector recovery: the existing tax burden on the economy (at 22 percent of GDP including Social Security taxes) is high by Latin American standards. If financial necessity requires a new tax measure, an extension of the value added tax to certain service activities could be considered; this might yield some 1.5 percent of GDP in extra revenues. Alternatively, the divestiture of some state assets, an important aim of the structural adjustment program, could be accelerated together with more appropriately priced leasing of reverted Canal Area assets. The extra resources could render new taxes unnecessary.

F. Final Remarks

xxvii. The analysis of this report suggests that Panama has considerable potential for returning to a growth path within two or three years. It is endowed with a geographic location at the crossroads of world trade, a sophisticated, export-oriented commercial sector, an open, well developed financial system, a relatively well trained and frequently bilingual labor force, good communications and an adequate international transport infrastructure. But to build upon these assets, the Government must continue removing constraints to this growth by putting in place a framework conducive to private investment and expansion of exports. This will involve deepening and extending the structural adjustment process to which such a good beginning has been made. The likely alternative is continued stagnation, increasing strain on the social fabric, and erosion of Panama's creditworthiness.

xxviii. In order to encourage the right kind of export-oriented, labor intensive investment the Government should: (i) accelerate the restructuring of incentives, many of which currently point in the wrong direction; (ii) remove labor market rigidities and legal impediments to employment; and (iii) progressively open the economy to international competition while dismantling the regulation of prices and trade which discourages investment and impedes exports. At the same time, public sector resources must be increased to finance an investment program oriented to support private initiatives, and to meet expected heavy future outlays in the social sectors. A prudent, coherent and well planned fiscal policy, combined with an open economy growth strategy, will not only confirm Panama's creditworthiness, but also improve the allocation of scarce resources, attract foreign capital and lay the foundations for future prosperity.

I. RECENT ECONOMIC PERFORMANCE AND THE STRUCTURAL ADJUSTMENT PROGRAM

A. Past Economic Trends and Recent Changes

1.1 The 1960's saw rapid economic expansion in Panama, with GDP growth averaging 8 percent per year (or 5 percent per capita). Much of the impetus came from buoyant Canal-related activities, and the effects of the Remon-Eisenhower treaties which transferred some economic activities from the Canal Zone to Panama. Real agricultural output increased by nearly 5.3 percent per year, based largely on expansion of grass-fed beef production and on increased output of bananas following important disease eradication measures. These were major factors contributing to a substantial growth of exports. Industrial growth was also strong, with a 10.9 percent annual average increase in real value added, most of it directed towards the domestic market. Almost as impressive was the growth of the construction and services sectors at over 8 percent per year. The latter, which now accounts for 70 percent of the GDP is highly export-oriented and is geared to the Latin American market. It consists mainly of entrepot trading, financial services and transportation. The principal source of investment finance and entrepreneurial talent was the private sector. Private domestic savings averaged about 15 percent of GDP, while private investment increased at a real 12.5 percent rate between 1960 and 1970, rising from 12 percent to 18 percent of GDP. Total employment grew at 3.5 percent per year, well in excess of the 2.5 percent annual increase in population. Nearly all the expansion in employment opportunities was provided by the private sector, and occurred in the urban areas; in the agricultural sector, employment expanded at only 0.7 percent per year.

1.2 The benefits of this rapid development were, however, concentrated in relatively few hands. Real wages were held down; the nominal minimum salary remained constant between 1960 and 1968. Acute poverty persisted, mostly in the countryside. Moreover, the social and economic infrastructure, particularly in rural areas, was inadequate to ensure continued economic and social improvement outside the metropolitan corridor. Statistics in the most recent "World Development Report" indicate that Panama's income distribution in 1970 was one of the most skewed in the Latin American Region.

1.3 The development strategy initiated by the Torrijos Government in 1968 aimed at major social reforms while attempting to sustain growth through increasing and diversifying exports. Greater national integration was achieved by increasing and improving the communications and transport linkages among the regions of the country; social improvements were made by supporting human resources development, agrarian reform and the provision of basic needs, and by strengthening the country's institutional framework. The strategy was executed through expanded and improved social services (particularly in health and education), through the development of infrastructure by constituting public utilities (electricity, telephones, water) into individual state entities, and by an ambitious public investment program. The system of hydro-electric generation, roads, educational, water and health facilities which was built up throughout the country provided services to wide sections of the population which had not previously enjoyed them.

1.4 Although this strategy was initially successful in combining rapid growth with social reform, the economy was adversely affected by both external and domestic developments in the mid-1970s. Real annual GDP growth fell from 7.3 percent between 1968 and 1973 to 1.7 percent between 1973 and 1977, before recovering to 4.4 percent between 1978 and 1982. The increase in world oil prices and related inflation after 1973 brought about international economic uncertainty, while Canal activities slowed after the peak Vietnam war traffic decreased. Domestic uncertainty stemmed mainly from the extensive/long Canal Treaty negotiations, although confidence was also undermined by increased regulation of the economy through a highly restrictive Labor Code, and price and rent controls. Consequently, private investment declined in absolute terms between 1973 and 1977. The public sector compensated for this, not only through investments in large infrastructure projects, but also by the creation or acquisition (and subsequent expansion) of a number of directly productive enterprises. State subsidies and high support prices absorbed an increasing proportion of the current budget, while public sector employment accounted for two thirds of the new jobs created between 1970 and 1979. Despite additional revenue measures, this expansion resulted in a sharp increase in the public sector deficit, and consequently in the Government's dollar-denominated debt which reached nearly 80 percent of GDP by the late 1970s.

1.5 The atmosphere of political uncertainty diminished considerably after agreement was reached on the Canal Treaty terms in 1977, and this enabled the Government to modify economic policy. The public sector entered into a period of retrenchment as several large capital projects were completed, no further state enterprises were created, and the Government began a sustained effort to reduce the public deficit through increased taxes and tighter controls on expenditures. By 1981 the deficit had fallen to about 5 percent of GDP from nearly 12 percent in 1979, so that Panama fully complied with the targets established under IMF Standby Arrangements. To encourage private investment, new incentives for export, investment and employment generation were introduced. Together with the agreement and subsequent ratification of the Canal Treaties, these led to some restoration of private sector confidence. However, private investment did not recover to the levels of the 1960's and early 1970's. Between 1978 and 1982 it was still less in real terms, and as a percentage of GDP, than between 1968 and 1973 [1/]. Furthermore, although the services and construction sectors once again flourished, agriculture and industry continued to be more adversely affected by the policy and institutional environment. Real per capita agricultural output was less in 1982 than in 1977, while industrial value added declined from 11.5 percent of GDP to 9.8 percent.

1/ Between 1968 and 1973, private investment, in constant 1970 prices averaged B/.233 million compared with B/.218 million between 1978 and 1982; as a percentage of GDP, private investment averaged 19 percent during the former period and 16 percent during the latter.

Table 1.1: PRINCIPAL ECONOMIC AND SOCIAL INDICATORS

Indicators (annual growth rate)	1960-1970	1970-1979	1980-1983 a/
GDP	8.0	4.5	3.3
Agricultural Output	5.3	2.2	3.9
Industrial Output	10.9	3.4	-1.1
Construction and Services	8.1	5.1	4.5
Private Sector Investment	12.5	0.7	2.8 b/
Private Sector Employment	3.4	0.5	n.a.
Total Employment	3.5	2.2	2.2 b/
Unemployment Rate, End Period c/	7.1	8.8	9.5
Infant Mortality Rate, End Period d/	40.5	21.7	n.a.
Number of Doctors per 10,000 Inhabitants, End Period	6.3	9.4	9.8
Number of Secondary School Students, End Period	78,466	171,000 e/	177,000

a/ Preliminary.
b/ 1978-82.
c/ Unemployed as a percentage of the economically active labor force.
d/ Per thousand, live births.
e/ 1980

Source: Statistical Appendix.

1.6 In 1982, Panama felt the impact of the world recession in general, and of the deepening economic and financial crisis in Latin America in particular. Growth in the financial sector was less than half that of preceding years, while value added in tourism and in the Colon Free Zone declined sharply. Private investment fell in real terms following the completion of a publicly and privately financed trans-isthmian oil pipeline. Partly to compensate for this, and partly because of increased political pressures, controls on public expenditure were loosened. The consolidated public sector deficit for the year as a whole was 11 percent of GDP, almost double the amount stipulated in the Government's Standby Arrangement. Public investment was over 12 percent of GDP as against a target of 10 percent. To correct this situation the Authorities carried out, in 1983 and 1984, a severe austerity program, supported by an IMF Standby. This reduced public investment by 20 percent and the deficit to about 6 percent of GDP in 1983; in 1984 preliminary figures indicate a further reduction of 8 percent in nominal public capital expenditures and a deficit of 6 percent of GDP.

1.7 In 1983, real GDP stagnated for the first time in more than two decades. Construction, depressed by public austerity and the termination of the pipeline construction, fell by 28 percent. Tourism and wholesale and retail commerce, strongly dependent on the wider Latin American market, fell by 6.3 percent as the financial crisis continued to afflict the Region. For similar reasons, there was another massive slump in the Colon Free Zone where real value added dropped by 28.1 percent after having declined by 14.4 percent in 1982. Manufacturing, especially clothing, footwear and consumer durables, suffered from the general decline in purchasing power and fell by 2.3 percent. Without a very large increase in value added associated with the Trans-isthmian Oil Pipeline operation (essentially interest and depreciation), real per capita GDP would have declined by 6.5 percent.

1.8 In late 1982, the Government realized that, given the likely external environment, the outlook was for continued stagnation in the medium term unless domestic rigidities and distortions were tackled. The social consequences of stagnation would be aggravated by the already high and rising unemployment rate which threatens to become an explosive social issue. Merely to absorb additions to the labor force, the economy needed to grow by some 7.5 percent annually, given current labor market rigidities. Bold actions were required to re-orient the economy towards a new growth path. This was because the growth sources of the past decade--the public sector and the internationally oriented services sector--had dried up. The public sector is under a severe financial constraint: it must service, under conditions of acute scarcity of commercial credit, an external debt larger in relative terms than those of Argentina, Brazil or Mexico. The service sector is unlikely to recover its full dynamism until Latin American regional recovery takes place. In view of this, more rapid expansion must meanwhile be centered in the directly productive sectors of agriculture and industry. The entrepreneurial initiative and investment finance for this must come from private sources rather than the financially weakened public sector. Moreover, the domestic market is small and largely saturated; exports must therefore become the engine of growth.

B. The Structural Adjustment Program

1.9 In several important respects, the Panamanian economy is not well structured as a goods exporter. A clear dichotomy exists between the previously dynamic, internationally-oriented service sector and the inward-looking, over-regulated goods sectors. Encouraging the appropriate blend of export-oriented, labor intensive activities requires: (i) a major overhaul of the structure of incentives which is currently geared towards import substitution and results in the minimization of employment; (ii) a leaner, more efficient public sector, both to ease the fiscal burden and release resources for private investment; and (iii) specific reforms to tackle individual sectoral inefficiencies. Because of its use of the US dollar as a medium of exchange, Panama cannot exercise the option of compensating exporters through exchange rate adjustment. All sources of high cost and inefficiency must therefore be tackled individually. Relatively high wages and social charges, labor market rigidities, and inefficiencies in public sector enterprises are reinforced by expensive locally produced intermediate goods such as petroleum products and cement; a high cost, heavily protected local industrial sector; an inefficient agricultural sector geared to self sufficiency irrespective of economic cost; high cost and inefficient port operations; a monopolistic structure of internal road transport services resulting in high rates; and dominance by a few firms of the distribution of a number of imported commodities such as fertilizers, vegetable oils and grains.

1.10 Parallel with its program of fiscal stabilization and austerity, the Government has begun to address these issues through a series of fundamental structural reforms. These measures, although mutually reinforcing, may be divided into three main areas: first, to reduce the scope and improve the efficiency of the public sector; second, to begin reorientation of the incentive structure in the urban, industrial sector towards exports and employment generation; and, third, to increase productivity and output in the agricultural sector.

Public Sector Efficiency

1.11 The major components of the Government's program for improved public sector efficiency include: (i) a major review and subsequent rationalization of public sector enterprises; (ii) a coherent investment program consistent with the priorities of the new development strategy; (iii) reform of public sector housing policy; (iv) reform of the public health and social security systems; (v) more effective management of state-owned assets especially those located in the former Canal Zone, where control has recently reverted to Panama; (vi) reform of the Customs Administration; and (vii) improved public sector debt management.

1.12 The review of the 45 public sector agencies and enterprises showed that while they had a consolidated current surplus of some B/.8 million in 1982, this concealed large discrepancies; some entities earned substantial profits while others required large subsidies. Approximately B/.65 million (1.5 percent of GDP) was spent in 1982 on current subsidies and transfers excluding those to higher education establishments. The Government has developed a program to eliminate these subsidies over a period of five years. As an important beginning, in 1983, it sold a major unprofitable hotel; ended a contractual arrangement of market sharing and cross subsidization involving a state owned cement plant; initiated a major restructuring of the development finance corporation, COFINA; closed the least efficient of the four sugar mills of the publicly owned La Victoria Sugar Corporation; eliminated state subsidies to an agricultural development corporation and a citrus plant, and began the process of partial privatization of the latter; advanced plans for the divestiture of another loss making hotel; and began financial and managerial reforms at the national airline, Air Panama.

1.13 Controls exercised by the Ministry of Planning and the Office of the Comptroller General over public investment and public sector debt management have been considerably improved and strengthened. Departures from control procedures, at one time endemic, are now rare, although their continued occurrence points to the need for further improvements in this area. Public investment expenditure has been sharply reduced in accordance with fiscal restraints, and restructured to correspond to the priorities of the new development policy. Further reductions will have to be made in view of the financial burden of heavy debt servicing obligations through 1987 (Chapter III and Annex II).

1.14 In public housing, a number of actions have been taken to improve the sector's precarious financial situation. Interest rates on new loans by the National Mortgage Bank (BHN) have been raised from between 7 and 9 percent to 12 percent (compared to a current inflation rate of about 4 percent), control procedures over the selection and state financing of housing projects strengthened, and the Social Security Agency is ending its costly intervention in the housing market as a direct promoter of construction. These reforms were to some extent counterbalanced by the extension at the end of 1983, of formal interest rate subsidies to all housing units of less than B/.20,000 each. This extension was cancelled by new legislation in November, 1984 (Chapter III).

1.15 Further issues of public sector reform are being addressed through technical assistance and studies, partly financed by a World Bank Technical Assistance Loan which accompanied a Structural Adjustment Loan (SAL). The Bank loan is financing studies of the management of state owned assets in the reverted Canal Area, and in the Transisthmian transport corridor between Panama City and Colon; administrative and financial reforms in the Social Security; the role of state institutions in the agricultural sector; and unit cost reductions in the health sector. Two shorter studies on industrial protection and agricultural pricing have already been completed. In the area of Customs reform, the Government is receiving technical assistance from an international expert who has prepared detailed recommendations for reform (Chapter III).

The Industrial Incentive Structure

1.16 The principal aim of the actions taken in the industrial and commercial sectors is to liberalize commerce in manufactured goods with a view to increasing competitiveness and reducing the anti-export bias of incentives (Chapter V). To this end, nearly half the total number of quantitative restrictions on imports were replaced by tariffs between March and October, 1983. Most of the rest will have been similarly replaced by March 1985. After that date, only some twelve sensitive agricultural products will still be protected through import quotas. There has also been some easing of price controls on products previously subject to import quotas. The initial tariff levels on most items where quotas have been removed range between 25 and 75 percent *ad valorem*, although in the case of the least efficient industries, the protection is higher than 100 percent.

1.17 Further industrial incentives reforms, and timetables for the reduction of tariffs towards an established minimum of 10 percent *ad valorem*, are embodied in new draft incentives legislation approved by the Cabinet in June 1984. Once enacted as law, it would establish equal incentives for all firms, maximum levels of tariff protection, and tax exoneration and deferrals for exporters.

Agricultural Policy

1.18 In agriculture also, the Authorities confront a formidable array of controls and bureaucratic obstacles which have lead to a production pattern incompatible with Panama's comparative advantages and which impedes export oriented expansion (Chapter IV). So far the reforms have concentrated on a series of product-specific actions designed to liberalize trade and on improvements to the overall policy framework embodied in the Agricultural Incentives Law. The reforms carried out to date are: (i) a reduction in the 1983 rice support price of 8 percent which, in the event, was insufficient to discourage production of another costly surplus; (ii) liberation of beef and coffee exports; (iii) lifting of domestic price controls on higher quality meat cuts, potatoes and higher grade coffee; (iv) establishing an intermediate grade "B" price for milk; and (v) lifting of import quota restrictions on five agricultural commodities.

1.19 The general framework of agricultural incentives is addressed in draft legislation approved by the Cabinet together with the new Industrial Incentives Bill. A new agricultural law, based upon the draft, would abrogate those aspects of existing legislation which are incompatible with the new direction of economic policy. For example, instruments to achieve the goal of self sufficiency in all products the country is agronomically capable of producing, irrespective of economic cost, would be removed from the legal framework. Annual import substitution targets would also be eliminated, together with price controls on agricultural equipment and inputs. Interest rate subsidies for agricultural loans would be reduced.

Continuation of the Structural Adjustment Program

1.20 Although the measures described above represent a good beginning to the Government's program of reforms, much remains to be done. A new Administration took office in October 1984, and while it is still developing the details of its economic strategy, it is already possible to discern its main elements: (i) reform of labor legislation to reduce market rigidities and disincentives to employment; (ii) continuing reforms of the structure of incentives, especially trade and pricing policy, in agriculture and industry; (iii) continuing the reform of public sector institutions and financial control; and (iv) addressing other individual sources of high cost and inefficiency in the economy which impede its international competitiveness. In addition, the new Government gives high priority to reforms in the construction industry and to diversifying Panama's service activities, both with a view to generating urban employment.

1.21 With regard to the incentive structure, the Government's first task will be to obtain Legislative approval, and pass as Law, the draft Agricultural and Industrial Incentives Bills prepared in 1984. Reforms to the general structure of incentives will need to be complemented by the dismantling of regulatory obstacles which actually impede exports. These are most prevalent in the agricultural sector where export restrictions are periodically imposed to reinforce domestic price controls or to serve special interests or both. In both agriculture and manufacturing there is a need to simplify procedures for obtaining export incentives.

1.22 The issue of price controls is likely to prove difficult. There is strong evidence that these represent serious disincentives to private investment, especially in agroindustry. However, progress made so far in dismantling them has been slow. Price liberation has been restricted to those goods whose import quotas have been lifted; even there, the Price Regulation Office has been tardy in carrying out Planning Ministry instructions. This would be a major area of action for the new Government.

1.23 Substantial revisions to labor legislation, embodied in the Labor Code of 1972 (Chapter II), will be necessary if Panama is to attack seriously its unemployment problem. The Code's provisions make it difficult and expensive to dismiss personnel and hence provide a powerful disincentive to hiring them in the first place. It thus reinforces heavy social charges and a higher level of wages than those in most countries of the Region. The problem cannot be tackled simply by removing or reinterpreting individual clauses through presidential decree. The Code is a weighty document, skillfully put together, with mutually reinforcing articles and clauses. To make it compatible with rapid employment generation would require a major revision.

1.24 In the public sector, the essence of the program would be to reduce the scope of the sector in relation to GDP with a view to relieving both the fiscal and public tariff burdens, and releasing resources for private sector expansion. To achieve this, it would be necessary, first, to continue formulating a reduced public investment program consistent with the aims of overall economic policy; and, second, increase public sector savings through the execution of a coherent medium term reform plan aimed at increasing efficiency and cutting costs.

1.25 Each area of policy reform is discussed in this report. Employment and the labor market are considered in Chapter II. Chapter III addresses the issue of public sector finance in the context of the country's external debt burden, and shows the need for further institutional reform. Agricultural and industrial policy are discussed in Chapters IV and V respectively, while Chapter VI examines those export-oriented service activities which directly affect the economics and institutional aspects of exporting. Finally, Chapter VII presents projections of future economic performance under alternative policy assumptions.

II. EMPLOYMENT

A. The Deteriorating Employment Situation

2.1 Unemployment is, without doubt, the gravest economic and social problem currently facing Panama's policy makers. Unless drastic and rapid action is taken to modify the legal and institutional framework in which the labor market operates, unemployment will swiftly rise to rates which may strain the fabric of society. Without such measures, the GDP will likely need to grow by some 7.5 percent per annum from 1985 onwards merely to avoid a further rise in unemployment. This is double the growth rate actually achieved since 1980.

2.2 Unemployment in Panama is not simply a product of the economic recession; rather, there is a long term, structural problem related to the institutional and legal framework in which the labor market operates. This was pointed out in a Special Economic Report on Metropolitan Unemployment in Panama, issued by the Bank in July, 1982 (3833-PAN). That Report concluded that the unemployment outlook pointed to an increasingly serious problem.

2.3 Data which have become available since then confirm the accuracy of this prediction. The officially estimated unemployment rate reached 9.5 percent in mid 1983, the highest rate recorded since the data began to be systematically collected in the early 1960's. The unemployment rate in the Panama City/Colon Metropolitan Area was estimated to be nearly 12 percent in mid 1983, another all-time high. Average participation rates 1/ have fallen sharply, and the long-term unemployment rate, especially in the Metropolitan Area, has nearly doubled since the mid 1970's.

2.4 No recent official estimates are available of a breakdown in unemployment rates between the cities of Colon and Panama. All evidence indicates, however, that the situation in Colon is very much worse. While in Panama City, unemployment is partly a consequence of the recession, in Colon it is principally chronic and long term. The working age population is about 80,000, and it is difficult to identify more than 30,000 jobs in the area, at least in the formal sector. A significant proportion of these are, moreover, filled by commuters from Panama City. With the most optimistic assumptions, the unemployment rate in the city is some 25 percent.

1/ The proportion of the total workforce (defined as those 15 years and above) which is economically active, i.e. working or seeking work.

Table 2.1: KEY AGGREGATE EMPLOYMENT INDICATORS 1974 AND 1983

	1974	1983
Official national unemployment rate (percent)	5.8	9.5
Participation rate (percent)	59.5	55.9
Percentage of unemployed without work for at least one year	16.1 a/	27.3 b/

a/ 1976
b/ 1982

Source: Statistical Appendix, Tables 1.5 through 1.16.

2.5 Between 1976 and 1982, Panama's working age population grew by 3.7 percent per annum nationally, and by 4.1 percent in the Metropolitan Area, reflecting continued rural/urban migration. This rapid growth reflected high birth rates of over 40 per thousand in the 1960s; at the same time mortality rates began to decline. Subsequently, in the 1970s, the demographic trend underwent a major change. While mortality rates continued to fall, birth rates declined dramatically to 36 per thousand between 1975 and 1980. This decline is estimated to have continued into this decade, to a current 28 per thousand, and is officially projected to fall further to about 20 by the year 2000. Mortality rates, after falling from over 10 per thousand in 1960, to 7.3 in 1970, and again to 5.3 in 1983, are projected to stabilize at around 5 per thousand over the next 15 years. Consequently, overall population growth fell from 3.4 percent in the 1960s to an estimated 2.6 percent between 1975 and 1983. The projected rate for the rest of this century shows a continued decline with growth averaging less than 2 percent annually by the 1990's. Reflecting these trends, the growth rate in the working age population may be expected to fall after 1985.

2.6 The future behaviour of rural/urban migration is less certain. A return to buoyancy in the export-oriented industrial and service sectors could well bring about renewed acceleration, while rural job opportunities, on the most optimistic assumptions, are unlikely to increase. If the economy returns to a reasonable growth path (i.e. with real GDP increasing by at least 5 percent per annum after 1985), the rate of increase of the Metropolitan Area's working age population will likely not decline by much during the rest of the 1980's. Only after 1990 will the scope for further rural/urban migration be reduced by a lack of surplus labor in the rural areas. (See Graphs 2.1 and 2.2).

2.7 For the working age population, participation rates have declined from 60 percent in the early 70's to just over 50 percent in 1982 and 1983. This reflected greatly increased enrollment in secondary and tertiary education, a reduction in the voluntary retirement age from 62 to 55, and a falling female participation rate. Without these factors, the unemployment rate in 1983 would have been over 20 percent, more than double the registered estimate. The lower participation rates are particularly evident among the young; according to official household survey information, less than 10 percent of those who attained the age of 15 between 1978 and 1982 found paid employment. Those who were unable to continue their education entered the ranks of the unemployed; the registered unemployment rate for those under 25 years of age is 24 percent, two-and-a-half times the national average.

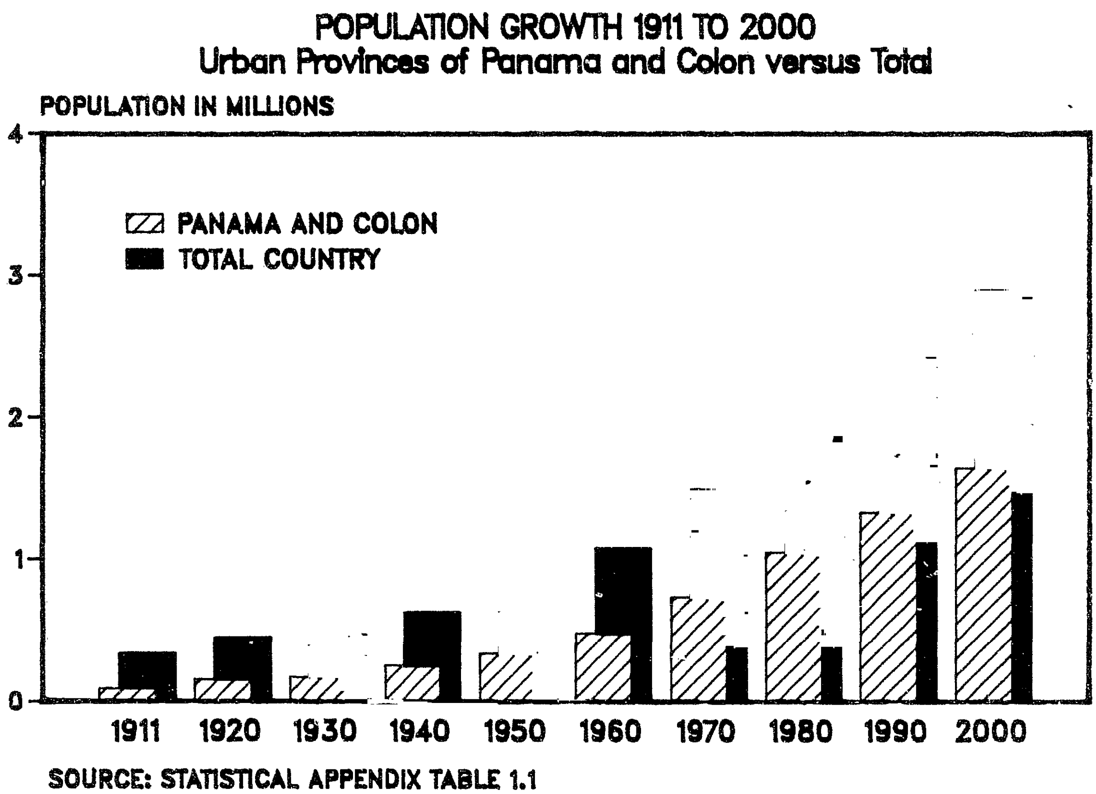
2.8 It is unlikely that participation rates, especially among males, will decline further; indeed preliminary evidence for 1983 suggests that an increasing trend may have set in. Fiscal constraints will impede further significant expansion of the secondary and tertiary education system, while further lowering of the retirement age would be most imprudent in view of potential financial difficulties in the Social Security Agency. For policy making purposes, therefore, it should be assumed that the participation rate in the mid to late 1980's will be no lower than that registered between 1978 and 1982.

2.9 According to household surveys, a significant deterioration took place between 1976 and 1983 in terms of the average length of unemployment. In the Metropolitan Area, the proportion of those out of work for at least a year nearly doubled to 30 percent of the unemployed, as did the percentage of hard core unemployed, defined as those without a job for 3 years or more. This increase in long term unemployment is indicative of the fundamental nature of the problem facing policy makers.

B. The Sources of Employment

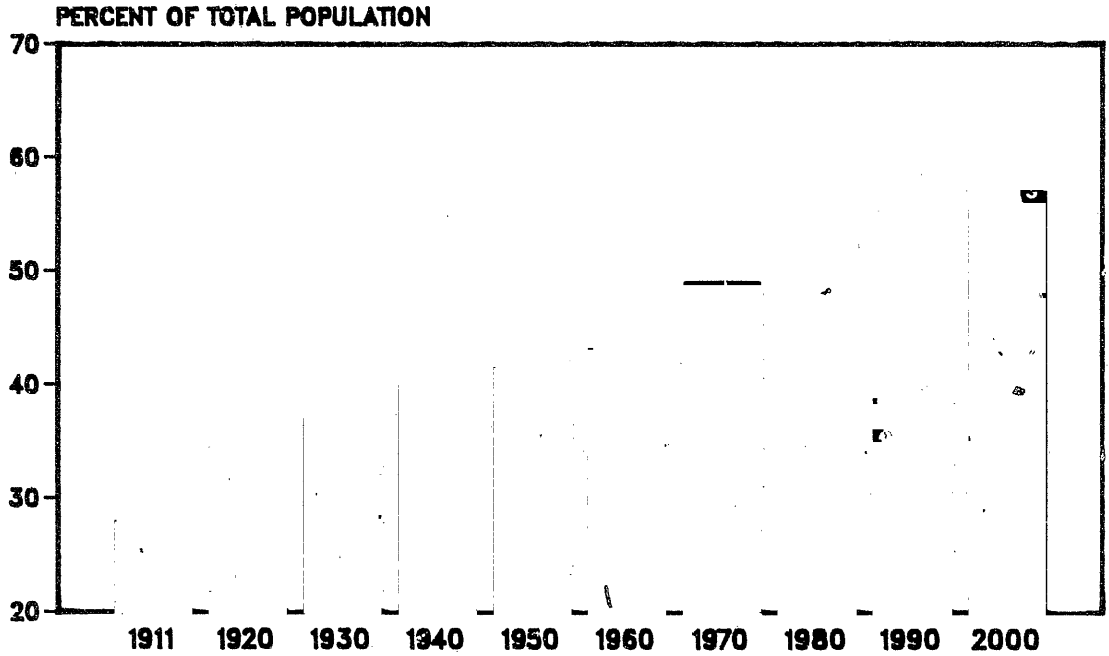
2.10 The recovery of economic activity in Panama after 1977 was accompanied by some increase in employment. Much of the immediate increase, however, was due to the emergency employment program launched by the Government in late 1977. This accounted for about 20,000 of the 28,000 new jobs generated between late 1977 and late 1978. In 1980, after the emergency program was discontinued for fiscal reasons, the rate of employment increase dropped sharply. Only 11,000 new jobs per year were created between 1979 and 1982. While this was a considerable improvement on the recession years of the mid 1970's, it was still less than the 13,000 new jobs generated annually during the 1960's.

Graph 2.1


POPULATION GROWTH 1911 TO 2000
Urban Provinces of Panama and Colon versus Total
POPULATION IN MILLIONS
PANAMA AND COLON
TOTAL COUNTRY
0
1
2
3
4
1911
1920
1930
1940
1950
1960
1970
1980
1990
2000
SOURCE: STATISTICAL APPENDIX TABLE 1.1

Graph 2.2

URBAN POPULATION GROWTH – 1911 TO 2000
POPULATION OF PROVINCES OF PANAMA AND COLON AS PERCENT OF TOTAL



SOURCE: STATISTICAL APPENDIX TABLE 1.1

Table 2.2: JOB GENERATION SINCE 1970
(Number of New Jobs per year)

Period	National	Avg. Annual Percentage Increase	Metropolitan Area	Avg. Annual Percentage Increase
1970 - 72	12,700	2.9	9,000	4.0
1973 - 75	1,900	0.4	2,700	1.1
1976 - 78 a/	10,400	2.1	7,100	4.0
1976 - 78 b/	200	0.0	3,100	1.2
1979 - 82	11,400	2.1	3,100	1.0

a/ Including Emergency Employment Program.
b/ Excluding Emergency Employment Program.

Source: Statistical Appendix, Tables 1.5 and 1.6.

2.11 Once the effect of the official emergency program is discounted, the rate of job generation in the Metropolitan Area has been less than a quarter of that required to meet the increase in working age population. The effect of this on the official unemployment rate has been diluted by rapidly falling participation rates especially among new entrants.

Table 2.3: ANNUAL GROWTH RATES OF EMPLOYMENT: 1970 - 82
METROPOLITAN AREA

Sector	70-73	74-77	77-79	79-82
Total	3.7	-1.5	8.5	1.0
Agriculture	-3.5	-3.6	12.3	-2.4
Manufacturing	4.2	-2.1	6.0	-2.5
Construction	16.1	-9.9	16.0	5.4
Utilities	10.4	4.3	7.5	5.3
Commerce	3.6	-1.6	5.6	-0.9
Transportation/Storage/Communication	6.6	.3	7.6	7.0
Finance	9.5	- .2	13.0	6.6
Other Services	3.4	1.2	10.7 a/	1.2
Canal Area	-3.8	-3.9	-2.2	-4.1

a/ Includes Emergency Employment Program.

Source: Statistical Appendix, Table 1.6.

2.12 For the economy as a whole, the rate of growth of jobs since 1970 has been less than half that of GDP. The overall employment elasticity --the percentage change in employment associated with a one percent change in real value added-- averaged 0.46 during the 1970-82 period. This means that the economy must grow, in real terms, by 7.5 percent per year merely to absorb additions to the labor force 2/.

2.13 With the exception of financial services and real estate, where employment grew rapidly in the 1970's, all sectors show declining employment elasticities after 1970. In agriculture, employment stagnated during the 1960's and has declined slightly since 1970. For the economy less agriculture, the overall employment elasticity since 1970 was 0.65 compared to 0.77 during the 1960's. This reflects declines in manufacturing (0.85 to 0.61), construction (1.09 to 0.54) and nearly all service activities (0.74 to 0.66). This occurred during a period of substantial expansion in education, increasing literacy and the acquisition of important new skills in internationally oriented services, especially in the financial sector. Lack of overall skills cannot therefore wholly explain declining elasticities. Rather, the evidence strongly indicates that they are principally the product of state intervention in the labor market.

C. Labor Market Policies

2.14 Since the early 1970's, the State has played a central role in the functioning of the labor market. This was done with the specific social objective of aiding the poorer members of society. Its results have, however, been unfortunate: the perceived cost of employing labor has increased substantially. On the other hand, workers themselves have benefitted little from this: real wages in nearly all sectors have stagnated since the mid 1970's. The jobs of those already in employment have been protected at the cost, first, of stagnant real wages, and second, of severely impeding access to the job market by the unemployed and new entrants to the working age population. The policy impediments to employment in the labor market itself have been reinforced by the system of industrial incentives (Chapter V) which encourages the use of capital intensive rather than labor intensive techniques.

2.15 Since 1970, government intervention in the labor market has taken the following forms: (i) a Labor Code governing employer/employee relations; (ii) increasing Social Security contributions; (iii) intervention in wage determination; and (iv) expansion of public sector employment.

The Labor Code

2.16 Panama's Labor Code, which became effective at the beginning of 1972, made important advances in the protection of employees' rights and in the necessary regulation of workplace conduct and relationships. Moreover, interviews with entrepreneurs indicate that the great majority of them favor a Labor Code as an important factor in maintaining Panama's tradition of good and relatively tranquil labor relations. However, the Code as it currently

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2/ Assuming no changes in participation rates or in policies to increase marginal employment elasticities. (See Statistical Appendix, Tables 1.13 and 1.14).

stands increases incentives to minimize hiring while making it virtually impossible to reward greater productivity. For example, Article 159 stipulates that a worker's salary cannot be reduced under any circumstances whatsoever. Thus, if an employer, in accordance with another Article (number 142) pays according to piece work, he must continue paying the same salary even if the worker's productivity subsequently drops. This clearly discourages the establishment of piece-work related wage schemes which are common in precisely the sort of assembly industries which Panama hopes to attract. It also increases the cost of overcoming fluctuations in demand or productivity by use of financial rewards to workers. A decree changing Article 142 was drawn up in late 1982 but was not passed.

2.17 The Code's provisions concerning dismissal also increase labor costs. Severance payments, on a sharply increasing scale according to years of service, are due to any permanently employed worker.[3/] After two years of employment the worker cannot be dismissed without a court case. If the court case goes against the employer he can still dismiss the worker, but must pay him his full salary for the period from the filing of the case to the date of the verdict, as well as 150 percent of the severance payments due under the standard regulation. The severance payment also takes into account any productivity bonus which may have been paid. Auditors require many larger companies to maintain a separate reserve to cover possible severance pay claims and the legal costs associated with dismissal. Bankruptcy does not excuse the firm from severance pay obligations. In short, the cost of dismissal has become so prohibitive that employers are increasingly reluctant to hire workers for fear of being unable to fire them, except at great cost, when market conditions become unfavorable.

2.18 The difficulties and high costs associated with adjusting the labor force to fluctuating market conditions are particularly onerous for a firm trying to export. The relative uncertainty in these markets makes flexibility essential if Panamanian firms are to compete successfully. This is not to endorse, however, proposals for a separate labor policy for export industries. Such a policy would have several disadvantages. First, it would create what might be perceived as an enclave with separate privileges thereby increasing social tensions. Second, export industries are sometimes difficult to define: should they, for example, export 100 percent of sales or some portion thereof? In the latter case, it is difficult to see how labor relations would be regulated for that part of output sold on the domestic market. Other firms competing in this market would justifiably protest against unfair competition. Third, the system would be difficult to administer and police. Fourth, export industries would require locally produced inputs, the costs of which would include the effects of current labor legislation and would therefore indirectly affect the competitiveness of exports.

3/ A worker is defined as permanent when: (i) there is a permanent need for the function he fills; (ii) the work is part of the normal activities of the employer, and (iii) the contract is unlimited in time. The latter provision does not exclude a temporarily hired worker, with two or more contracts back-to-back, from being considered permanent because of provisions (i) and (ii).

2.19 The effects of the Code and other Government policies on the functioning of the labor market can be clearly seen in the case of the manufacturing and construction sectors. In manufacturing, during the five years preceding the Code's introduction, the employment elasticity exceeded unity, average real wages were rising sharply and labor increased its share in value added. In the seven years after the Code the employment elasticity fell by nearly 30 percent, real wages declined as unions opted for job security rather than higher financial returns, and the share of labor in real value added diminished. It is not argued that the Code was wholly responsible for these changes, since other anti-employment biases were also present in policy, and the country passed through a recession during the mid 1970's. Moreover, productivity--at least per worker, if not per Balboa invested--improved. Nevertheless, the Code undoubtedly played an important part in discouraging job creation.

Table 2.4: EMPLOYMENT, WAGE AND PRODUCTIVITY INDICATORS IN MANUFACTURING BEFORE AND AFTER THE INTRODUCTION OF THE LABOR CODE

	1965 - 71	1972 - 79
Employment elasticity	1.05	0.76
Average annual real wage increase (%)	5.5	-0.5
Average annual increase in real output per employee (%)	-0.5	0.7
Average annual increase in the share of real wages in real output	6.0	-0.7

Source: Statistical Appendix, Tables 1.13, 9.7 and 9.8.

2.20 In the construction sector, the change since the Code's introduction has been even more noteworthy. After employment had increased faster than real output in the 1960's, its growth fell to less than a fifth of that of real output between 1970 and 1979, before improving to just under half in recent years. During the period of falling real output in the mid 1970's, employers were unable to dismiss workers permanently. Instead, they were kept on a nominal payroll (although receiving no wage) and had to wait longer periods between projects. They also obtained fewer days' work each time they were called. While this muted the effects of the recession on recorded unemployment rates, it also reduced the impact of the recovery on job creation. The additional investment in construction after 1978 was more effective in reducing underemployment in the sector's labor force than in generating new jobs. There is also some evidence of the adoption of more capital intensive techniques, especially in building construction.

Table 2.5: EMPLOYMENT AND OUTPUT INDICATORS IN THE CONSTRUCTION SECTOR

	1960-69	1970-79	1979-82
Employment elasticity	1.09	0.17	0.49
Real value added per employee (annual average in 1970 Balboas)	3,041	3,212	3,773

Source: Statistical Appendix, Tables 1.13 and 9.8.

Social Security Contributions

2.21 Social Security contributions are, in essence, a tax on employment. They have sharply increased in recent years as the following table shows.

Table 2.6: SOCIAL SECURITY CONTRIBUTION RATES (Percent of insurable salary) a/

Period	Pension and Life Insurance	Medical Insurance	Professional Risk	Total
Before 1962	4.0	4.0	-	8.0
1962-1974	4.5	4.5	-	9.0
1975-1979	6.5	5.5	1.7	13.7
1980	8.8	9.0	1.7	19.5
1981	9.8	9.0	1.7	20.5
1982 (Jan-Jul)	10.3	9.0	1.7	21.0
1983	11.3	9.0	1.7	22.0
July 1984 onward b/	9.0	9.0	1.7	19.7

a/ At present the distribution between employers and employees is

Employers	13.9 percent
Employees	8.1 percent
	22.0 percent

b/ Since July, 1984 the CSS no longer receives the third part of the thirteenth month bonus which is instead retained by the employee.

Source: Social Security Agency and World Bank estimates.

2.22 Although the Social Security Agency's finances give serious cause for concern (Chapter III), the scope for meeting increasing obligations through further rate hikes is severely limited. If other social charges, such as annual paid vacation rights and the "thirteenth month" bonus, are added to Social Security contributions, the total burden on salaries is about 40 percent. This is a further strong disincentive to expand employment demand.

Wages and Wage Policy

2.23 Between 1970 and late 1976, Government wage policy consisted of: (i) the direct determination of salaries for public sector employees without the right of collective bargaining; (ii) the setting of minimum wages for public and private sector employees which varied both according to sector and region of the country, 4/ and (iii) allowing other wage rates to be determined by collective or individual bargaining in accordance with the provisions of the Labor Code.

2.24 Since late 1976, there have been a number of important *de facto* modifications to this framework, usually in response to political pressures from affected interest groups. Nominal wage increases in the private sector were very high between 1973 and 1976, averaging 12 percent per year, while real wages rose by an annual 3.2 percent. Trade unions effectively used the muscle provided by the Labor Code which guaranteed job security. In 1975, with the onset of the recession, the profitability of employing labor became severely eroded. To prevent large scale lay-offs, therefore, the Government suspended collective bargaining rights for two years, an action which reduced real wage increases to about 1.5 percent per year.

2.25 After the reinstatement of collective bargaining rights in 1979, wage demands were much more moderate. In that year, some 170 collective bargaining contracts were signed providing for increases of about 5 percent. With consumer prices rising by about 8 percent, this implied a substantial reduction in real wages. These moderate negotiated wage increases reflected the large pool of unemployed and underemployed which had developed during the 1975-77 recession. Again the Authorities intervened, this time to increase by decree the collectively negotiated wages of certain categories of workers. A general wage increase, ranging from B/.15 to B/.25 per month for those earning less than B/.300 per month was decreed, together with a B/.30 per month general rise for public sector employees. The minimum wage was also adjusted upwards. Similar interventions occurred in 1980 and 1981. In 1980, collectively bargained adjustments in the private sector averaged about 7 percent. However, sharp increases in public utility tariffs and in the price of liquid fuels contributed to a domestic inflation of 13.5 percent. To mitigate this, the Authorities decreed a general salary adjustment of B/.25 per month retroactive to the beginning of the year, as well as a special 5 percent rise for teachers and doctors guaranteed for two years. As a consequence, nominal wages in the private sector rose by 9.9 percent rather than the 7 percent reached by collective negotiation. This was still insufficient to offset the effects of inflation, and real wages fell by 3.6 percent.

4/ From 1979 onwards, there has been a trend toward narrowing the area differential because the cost of living for low income earners was found to be virtually identical throughout the country.

2.26 In 1981, the collective bargaining process failed to generate even nominal increases for a wide range of occupations. Only 46 contracts were signed compared to 170 in 1979 and 108 in 1980. No wage increase would have accrued to the 70 percent of the private sector labor force not covered by these contracts. In June a general award of B/.30 per month was officially decreed[5/]. Once again, however, this was not enough to compensate for inflation and real wages in the private sector fell by 1.5 percent. With the exception of the former Canal Zone, the decline continued in 1982. On average, real wages fell at an annual rate of 1.4 percent between 1978 and 1982. By the end of 1982, the average private sector employee had gained virtually no real increase since 1973. His public sector equivalent was even worse off: average public real wages declined by 9 percent between 1973 and 1982.

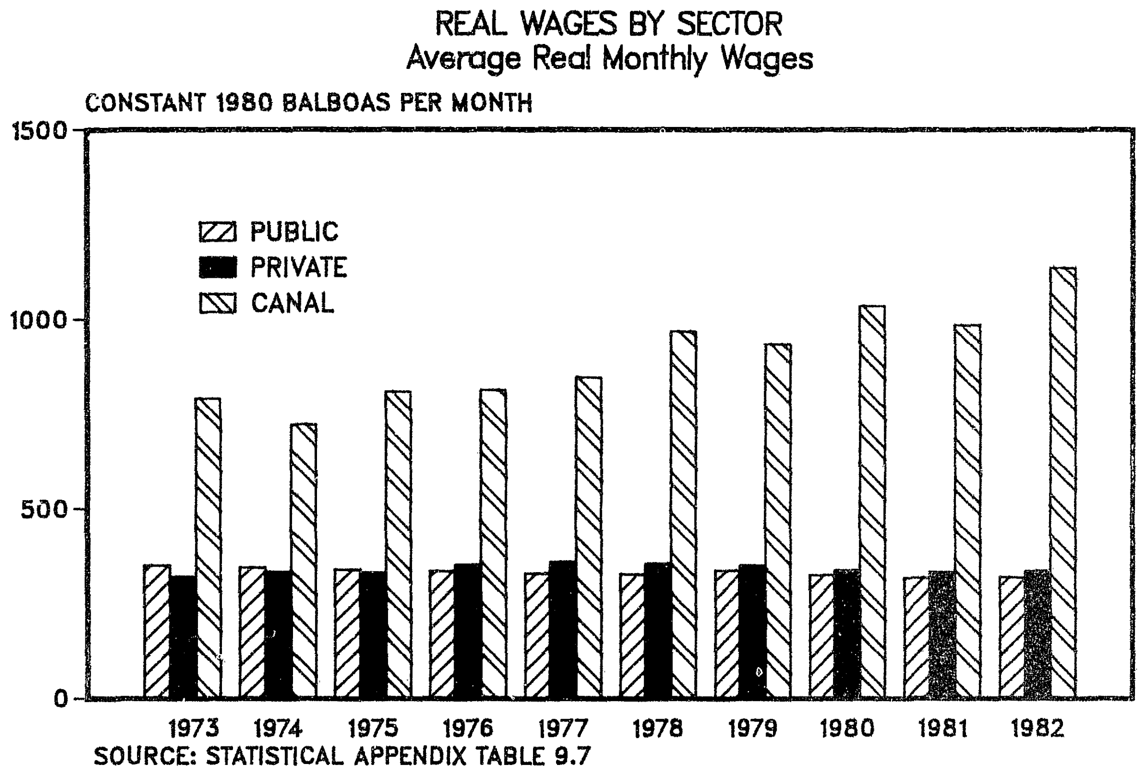
2.27 The decline in real wages was temporarily halted in 1983 when the Government authorized increases of over 10 percent to teachers, doctors, nurses and lower paid civil servants. Private sector wages also increased despite the depressed state of the economy. One hundred collective bargaining contracts were signed, leading to a 1.6 percent rise in real wages. No further direct intervention in collective bargaining agreements took place between mid-1981 and the end of 1983.

2.28 Minimum wages adjustments have not generally acted as an upward pressure on private sector wage awards. They have been very infrequent (in 1974, 1979 and 1983) and the minimum wage remains well below the average level for any sector. The last increase of 17.5 percent, in February 1983, brought the Metropolitan Area Minimum wage up to B/.0.78 per hour. This is about half the average hourly earnings in the manufacturing sector. Public sector wage adjustments, also, have mostly been below the level of increases granted in the private sector (with the exception of three years: 1978, 1979, and 1983).

2.29 In practice, therefore, the impact on the private sector of official intervention in wage determination has been felt mostly through decreed increases in collectively negotiated adjustments. These have been reinforced by the upward pressure generated by substantially higher wages in the Canal Area, which have been raised in real terms in accordance with the cost of living in the United States (see Graph 2.3).

5/ Enterprises that had already granted wage increases of more than B/.30 per month did not have to adjust wages further, while those that had granted less had to make up for the difference. If collective agreements were in effect, the adjustment had to be B/.30 plus 25 percent of the increase included in the agreement. Agricultural enterprises employing less than 10 workers were limited to increases of B/.15 per month, while domestic employees were granted only B/.10 per month.

Graph 2.3


REAL WAGES BY SECTOR
Average Real Monthly Wages
CONSTANT 1980 BALBOAS PER MONTH
1500
1000
500
0
PUBLIC
PRIVATE
CANAL
1973
1974
1975
1976
1977
1978
1979
1980
1981
1982
SOURCE: STATISTICAL APPENDIX TABLE 9.7

2.30 Despite falling real wages, Panamanian average earnings are still much higher than those of most of its competitors. Table 2.7 shows average monthly earnings in manufacturing in selected countries in relation to those in Panama in 1976 and 1982. The average labor cost in the other countries increased from 69 percent of Panama's in 1976 to 76 percent in 1982. Preliminary data for 1983, however, suggests that Panama's competitive position has again sharply deteriorated following major devaluations in many competing countries. Moreover, these earnings do not include Social Security contributions and other social charges which are considerably higher, as a percentage of salary, in Panama than in most of the other countries. While no reliable comparative figures are available, the inclusion of these charges would likely widen the gap by at least 10 percent of the Panamanian earnings level. On top of this, there are the rigidities and costs associated with the Labor Code.

Table 2.7: AVERAGE MONTHLY EARNINGS IN MANUFACTURING: SELECTED COUNTRIES RELATIVE TO THOSE IN PANAMA (Earnings in Panama = 100)

	1976	1982
PANAMA	100.0	100.0
Costa Rica	77.7	41.0
Honduras	56.1	84.2
Peru	67.2	48.2
Guatemala	63.2	71.4
Mexico	131.1	103.2
Korea	55.1	98.1
Singapore	73.6	104.2
Sri Lanka	16.4	10.6

Source: ILO: Annual Statistics

D. Expansion of Public Sector Employment

2.31 During the 1970's, there were some 112,000 new entrants to the labor force. Of these, only 20,400 (18 percent) found jobs in the private sector; another 17,500 (16 percent) were officially registered as unemployed. The remaining 74,000 (66 percent) found their way into direct public sector employment. As a result, between 1970 and 1979, public sector employment expanded at an annual rate of 10 percent and rose from 13 percent to 25 percent of total employment.

Table 2.8: PUBLIC AND PRIVATE SECTOR EMPLOYMENT, 1963-1982

	Public Sector a/ Employment (000)	% of Total	Private Sector Employment (000)	% of Total
1963	37.2	11.0	301.8	89.9
1970	54.4	13.1	361.2	86.9
1979	128.1	25.1	381.6	74.9
1982	136.5	25.0	409.1	75.0

a/ Excluding Canal Area.

Source: Comptroller General, World Bank estimates and Statistical Appendix, Table 1.15.

2.32 This major structural shift in the labor market was brought about in three ways: first, by encouraging existing public sector entities, as well as the Central Government itself, to expand employment beyond immediate needs; second, by creating new entities, particularly in the directly productive sectors; and, third, by establishing a special emergency employment program in 1978 which provided 20,000 jobs until its termination in 1980. In addition, over 50,000 persons were induced by state action to leave the labor force. Secondary and tertiary education were greatly expanded and this enabled the absorption of 30,000 persons of 15 years and above into schools and universities. A further 20,000 took advantage of the lowering, in 1975, of the voluntary retirement age to 55. In short, the public sector, directly or indirectly, prevented some 125,000 persons from entering the ranks of the unemployed.

2.33 For budgetary reasons, the public sector's role as a job provider declined markedly after 1980. Between 1979 and 1982, some 8,500 new jobs were created, half the annual rate of the previous decade. The Emergency Employment Program was discontinued, and the expansion rate of secondary and tertiary education was reduced by half. For the future, however, even these reduced rates of expansion are too high, in terms of either fiscal capacity to sustain them or their economic desirability. Partial evidence indicates that most of public sector entities, such as the Social Security Agency, IRHE and the Port Authority, have continued to expand employment in recent years, despite an excess of labor by 1980. Although a recruitment freeze is officially in force, this only seems to have had a significant impact on the Central Government itself. Given the Government's difficult financial situation in the coming years (Chapter III), further employment expansion can only be achieved at the cost of reducing investment. Similar fiscal constraints will severely limit the further expansion of secondary and tertiary education. Moreover, long term financial weaknesses in the social security system should rule out further lowering of the retirement age; indeed, the need to reduce the burden of social security levies indicates that a raising of the voluntary retirement age should be seriously considered. In short, the impact of the public sector on unemployment, either as a direct provider of jobs, or through inducements to leave the labor market, will likely be drastically reduced for at least the remainder of this decade.

E. Implications for Employment Policy

2.34 The broad aims of employment policy should be twofold: first, the overall policy framework should encourage private sector investment in activities likely to lead to rapid job generation; and second, changes should be made to increase the buoyancy of employment in relation to output.

2.35 There are, however, likely to be many unemployed in the medium term even with a successful job generation effort. A realistic assessment of growth prospects, and of the possibilities of increasing employment elasticities in the short term, indicates that there will be at least 110,000 people unemployed by the late 1980's. These must be assisted in establishing themselves as productive self-employed. This would be preferable to further special employment programs which would burden an already tight budget, or to relief transfers which would do the same and engender a feeling of dependency among the beneficiaries. The opportunities for the self-employed, who already number 200,000 6/, would be enhanced by sites for artisanal activities and small business, by support for cottage industries, and by creating a more open and competitive economic environment in which small business and the self-employed can flourish.

2.36 A program to aid the self-employed should not, however, be a substitute for a wider employment policy. Over reliance on self-employment would not solve the social problems caused by the decline of regular employment and may even exacerbate them. According to partial income distribution data, the self-employed are included in the poorest quartile of the population. There is also informal evidence that a substantial percentage of self-employed are involuntary and would rather be in regular work. Employment policy must therefore address, as its principal issue, the provision of more jobs in the regular, formal economy.

2.37 A coherent attempt should be made to increase marginal employment/output elasticities, mainly by reducing the overall cost of employing labor. Although real wages have stagnated since the mid 1970's, Social Security contributions add significantly to perceived labor costs. These contributions and other social charges must not be allowed to increase further, and ways should be sought to reduce them. Employment/output elasticities may also be increased by removing subsidies from the use of labor substitutes, e.g., duty exonerations on imported capital equipment and accelerated depreciation allowances. Care must be exercised in this approach since, although relative labor cost may be reduced, total production costs may rise thereby offsetting the potential gain to investment and employment.

6/ Excluding employers with 5 or more workers. See Statistical Appendix, Table 1.15.

As industry cannot be compensated by exchange rate adjustment, it is important that the reduction of capital subsidies be accompanied by measures to reduce the cost of employment.

2.38 However, such considerations are relatively marginal compared to the rigidities of labor legislation which are the principal cause of a perceived high cost of employment by entrepreneurs. Despite being a highly sensitive political issue, major and economy-wide modifications of the Labor Code are a sine qua non if Panama is to expand production for export at the rate necessary to absorb even a reasonable proportion of the growing labor force. This is unlikely to be achievable through changes to individual clauses by presidential decree. The Code is a weighty document, skillfully put together, with mutually reinforcing articles and clauses. To make it compatible with rapid employment generation would require major revisions. These should concentrate on removing the obstacles to rewarding productivity and introducing greater flexibility in the hiring and firing of workers. Specifically, employers should be permitted to lay off labor in response to market conditions and also to supplement the labor force with temporary workers when demand is high.

2.39 Finally, a new employment policy for Panama should recognize that the rural sector is unlikely to become an important generator of jobs even with major improvements in agricultural policy. Even during the 1960's, when agricultural output expanded at an average annual rate of 6 percent, employment grew only from 150,000 to 158,000. In 1982 it was 154,000. Moreover, much of Panama's comparative advantage in agriculture lies in areas such as grass-fed beef production and forestry which are not particularly labor-intensive. This is not to say that agricultural policy has no bearing on employment policy. On the contrary, given first that the principal generation of jobs will take place in the urban Metropolitan Area, and, second, that Panama's competitiveness cannot be enhanced by use of the exchange rate mechanism, a more efficient agricultural sector has a vital role to play in reducing upward pressure on wage costs. Lower support prices and a more liberal agricultural trade regime would ensure a lower cost supply of food and inputs for the urban area (Chapter IV).

III. PUBLIC SECTOR FINANCES

A. Overall Trends

The Consolidated Public Sector Deficit

3.1 Because Panama uses the US dollar as a currency, there is no "transfer problem", no foreign exchange reserves and no short term foreign exchange constraint. Inward and outward capital flows are unimpeded and at least partially set the level of domestic activity and import demand. In these circumstances, it is not possible for the authorities to control the domestic money supply or the exchange rate, while other key prices are difficult to determine by state intervention. Only the public sector is fully and directly susceptible to economic management. The key stability variable is the deficit of the consolidated public sector, rather than the balance of payments deficit.

3.2 The behavior of the public sector deficit since 1970 may be divided into three distinct periods as shown in Table 3.1. From 1970 through 1974, public capital expenditures averaged less than 9.1 percent of GDP, and almost a third of them were financed from current account savings. Consequently, the consolidated public sector deficit averaged less than 6.5 percent of GDP. From 1975 through 1979, public expenditures, especially investment, expanded rapidly while public savings deteriorated. This deterioration took place in spite of a series of major new tax packages and continuous IMF Standby Arrangements. Since 1980, with the exception of a major aberration in 1982, public savings have shown a distinct improvement. Revenues were boosted by about B/.80 million per year by the 1979 ratification of the Canal Treaties; capital and current expenditures were kept under tighter control; and Panama fully complied with IMF Arrangements in 1980 and 1981.

Table 3.1: KEY CONSOLIDATED PUBLIC SECTOR RATIOS, 1971-83
(As percent of GDP)

	1971-75 Average	1976-80 Average	1981	1982	1983
Current revenues a/	22.8	25.7	31.0	30.2	32.6
Of which: taxes b/	17.6	20.2	22.2	22.0	23.0
non-tax revenues	5.2	5.5	8.8	8.2	9.6
Current expenditures	20.2	25.0	26.9	28.9	29.3
Public Saving	2.6	0.7	4.1	1.3	3.3
Capital expenditures	9.1	13.6	9.8	12.3	9.5
Overall deficit	6.5	12.9	5.7	11.0	6.2
Financed by:					
External borrowing (net)	6.3	12.5	1.6	10.3	3.7
Internal borrowing (net) c/	0.2	0.4	4.1	0.7	2.5

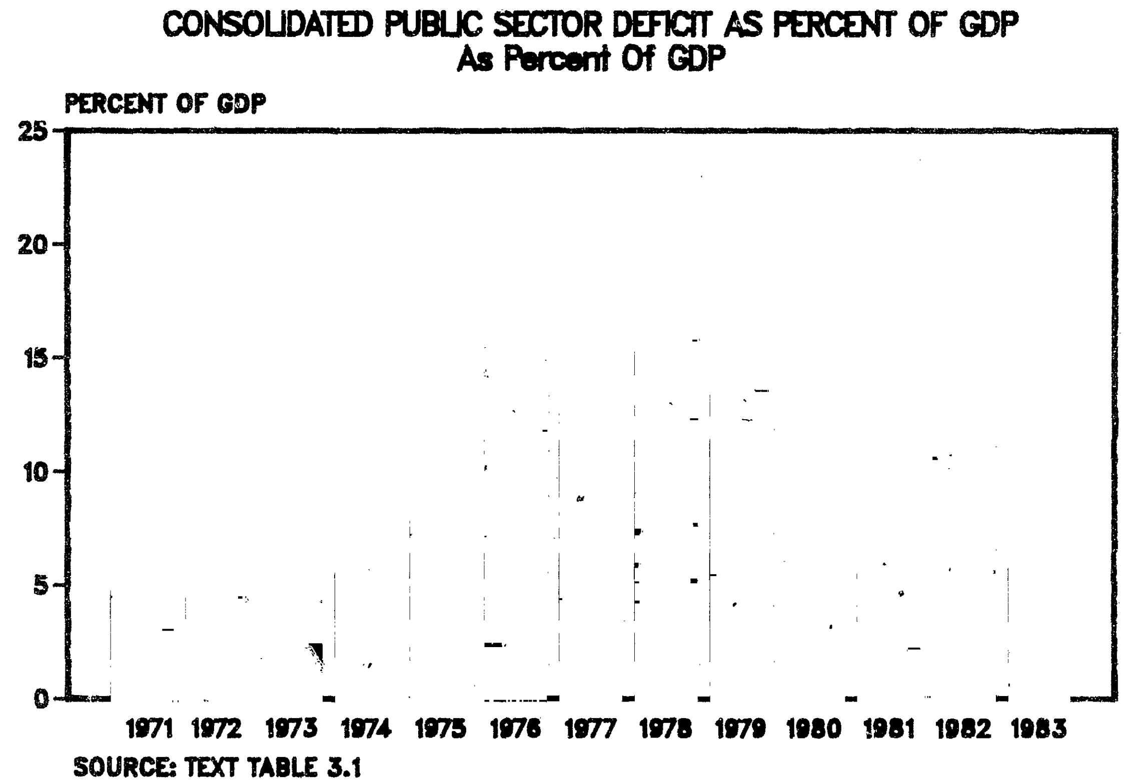
a/ Including grants in aid.
b/ Including Social Security contributions.
c/ From the National Bank.

Source: Statistical Appendix, Tables 5.1 through 5.6.

3.3 In 1982, Panama began to feel the impact of the international recession and private investment fell. Partly to compensate for this, and in a context of political uncertainty following the death of General Omar Torrijos in July 1981, controls on public expenditure were loosened. Several entities exceeded their capital budgets by wide margins, particularly the electricity company, IRHE, and the Social Security Agency. By mid-1982, it had become clear that Panama's fiscal Standby targets would be grossly exceeded. The consolidated public sector deficit was almost double the amount agreed to with the IMF.

3.4 Faced with a much more difficult international credit environment, the Government reacted vigorously to the 1982 fiscal crisis. Additional revenue was raised through an increase in the minimum tariff and crude petroleum import taxes, and substantial cutbacks were made in capital expenditures. After these measures, the public sector deficit was reduced to about 6 percent of GDP in 1983, with a target of 5.5 percent in 1984. This target was met in the first six months of 1984. There was to be no net increase in public sector commercial foreign debt in either 1983 or 1984. A new Standby Arrangement was agreed with the IMF for SDR 150 million (about US$173 million), of which one third was made available in 1983 and the rest in 1984. In addition, Panama received some US$60 million in 1983 from the Compensatory Financing Facility.

Graph 3.1


CONSOLIDATED PUBLIC SECTOR DEFICIT AS PERCENT OF GDP
As Percent Of GDP
PERCENT OF GDP
25
20
15
10
5
0
1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
SOURCE: TEXT TABLE 3.1

B. Central Government

Revenue

3.5 About 80 percent 1/ of Central Government revenue derives from taxes; of this, about 45 percent is from personal and corporate income taxes and a further 35 percent a domestic sales and value added tax. These are high proportions by developing country standards and reflect important tax reforms introduced in the 1970's. Income tax collection is relatively efficient and is effective in the case of individuals and small businesses as well as major commercial enterprises. It has proved a highly buoyant revenue source, rising from 5 percent of GDP in the early 1970's to over 7 percent in 1983. The value added tax is selectively applied to both locally produced and imported manufactured goods. The importance of these sources of tax revenue means that total government income is less vulnerable to the vicissitudes of imports and sales than that of many countries of the Region. Tax revenue has therefore been buoyant, generally keeping pace with, or exceeding, growth in nominal GDP. A relatively small proportion of taxes is levied on foreign trade; this is fortunate because in recent years falling imports have more than offset the effect of higher tariff rates and a conversion of quantitative restrictions into tariff protection.

3.6 Non-tax revenues received a substantial boost after 1979 when the Canal Treaties were ratified. The annual income from Canal operations rose by about B/.80 million and now represents about 40 percent of total non-tax revenues. Of increasing importance also are royalties and taxes from the Trans-Isthmian Oil Pipeline; some B/.45 million was provided from this source in 1983. Other important non-tax income sources include gambling levies (about B/.50 million per year) and charges for the use of the Panamanian Flag of Convenience (about B/.35 million per year).

Table 3.2: CENTRAL GOVERNMENT REVENUE AS PERCENTAGE OF GDP, 1971-83

Period	Taxes	Of which Income Tax	Non-tax Revenue	Total
1971-75 average	12.5	4.8	3.3	15.8
1976-79 average	13.7	5.4	2.8	16.5
1980	15.2	5.8	4.8	20.0
1981	16.1	6.8	4.7	20.8
1982	15.3	6.4	5.2	20.5
1983	15.9	7.1	5.2	21.1

Source: Statistical Appendix, Table 2.1 and 5.2.

1/ 1980-83 average.

Expenditures

3.7 Since the early 1970's, Central Government expenditure has risen sharply, both in absolute terms and as a proportion of GDP. However, 90 percent of the increase between 1971-75 and 1981-83 was caused by the rise in interest payments on the public debt, which have increased from less than 2 percent to over 6 percent of the GDP. This is due not only to the expansion of the Central Government's own debt; since the mid-1970's, it has assumed responsibility for the foreign obligations of a number of state enterprises. International interest rates have risen sharply over the same period 2/, so that the share of interest in total current expenditures also rose spectacularly. Preliminary figures in 1983 suggest a respite due to a levelling off international interest rates; in 1984, however, this trend was reversed.

Table 3.3: CENTRAL GOVERNMENT CURRENT EXPENDITURES AS PERCENTAGE OF GDP, 1971-83

	1971-75 Annual Average	1976-79 Annual Average	1980	1981	1982	1983
Wages and salaries	8.0	8.8	8.0	7.8	7.5	8.3
Interest	1.9	3.8	5.6	6.2	7.3	6.1
Transfers a/ and pensions	2.2	4.2	4.0	4.8	4.0	3.8
Other expenditures	1.7	1.9	1.7	1.6	3.0	3.1
Total	13.8	18.7	19.3	20.4	21.8	21.3

a/ To the Social Security Agency, decentralized agencies and public enterprises.

Source: Statistical Appendix, Tables 2.1 and 5.2.

3.8 It is noteworthy that Central Government wages and salaries fell as a percentage of GDP between 1976 and 1983 despite a 75 percent increase in employment over the period. This reflects the significant erosion in real wage rates which took place between 1976 and 1982, and which was partially corrected by a 10 percent rise in 1983 for the lower paid public employees. Many ministries and agencies of the Central Goverment are carrying a considerable excess of employees over and above their necessities. However, until the private sector begins generating jobs on a greater scale, it may be difficult for the Authorities to shed this excess.

2/ Between 1978 and 1982 the effective interest rate on the total external public debt rose form 7.5 to 12.5 percent.

3.9 Current transfers to the rest of the public sector rose sharply in the first half of the 1970s but have remained constant since then. By contrast, the Government increased purchases of goods and services and other items of consumption by nearly 100 percent in 1982 in response to the deepening economic recession. This is perhaps the one area of expenditure where reductions could be made relatively easily in the short term.

C. The Social Security Agency

3.10 The Social Security Agency (CSS), established in 1941, has shown impressive growth in recent years. It now provides pension, disability compensation and sickness benefits to over half the population. Moreover, over half the workforce is contributing to the CSS and thus building rights to comprehensive medical services and other benefits for themselves and their dependents. The value of contributions to the CSS has grown from 4.2 percent of GDP in 1971 to 7.1 percent in 1983; this reflects both an 87 percent increase in the number of contributors and a rise in the contribution rate from 9 to nearly 20 percent of the insured workers' salaries. CSS revenues received a sharp boost in 1979 and 1980 with the expansion of coverage to former Canal Zone workers. Between 1978 and 1981, the average contribution per covered worker rose by over 50 percent. The ratio of pensioners and dependents to active contributors has more than doubled, from 1.04 to 2.23 since 1971.

Table 3.4: SOCIAL SECURITY AGENCY: KEY STATISTICS

	1971	1977	1982
Number of active contributors a/	187,349	275,286	350,988
Total contributions (B/. million) b/	48.6	129.0	293.9
Average contribution (B/.)	259	469	837
Contributors as % of economically active population	38.4	40.2	54.2
Number of beneficiaries c/	382,786	765,851	1,133,211
Total benefits paid (B/. million) c/	48.1	124.6	250.1
Beneficiaries as % of total population	27.3	43.2	55.5
Contributions as % of salary	9	13.7	22.0

a/ Estimated.
b/ Cash payments including both employers' and employees' contribution.
c/ Including active contributors, pensioners and their dependents.

Source: Social Security Agency

3.11 The increase in the ratio of dependent beneficiaries to active contributors has to a significant extent been uncontrolled, and has taken place without due regard to the CSS's ability, in the long run, to meet the corresponding obligations. A similar observation can be made regarding the lowering, in several stages during recent years, of the voluntary retirement age for certain categories of workers from 62 to 55, with pension rights equal to the last year's salary. For the moment, however, higher contribution rates have raised the CSS operating surplus substantially. This is because the age structure of the population is currently such that a relatively large number of active contributors are supporting a relatively small number of pensioners, and the vast majority of dependents are in an age group where their demands on medical, disability and pension services are light. By 1982, the Agency's operating surplus had reached B/.52 million, equivalent to 2 percent of GDP and 90 percent of total public savings, before falling back to B/.18 million in 1983 after a renewed surge in benefits.

3.12 The Agency's capital outlays have also grown, thanks to increases in net lending to the National Mortgage Bank (BHN), hospital construction and, more recently, a self administered and financially disastrous housing program. This program, known as the Programa Colectivo de Vivienda or PCV was very ambitious, involving the construction of some 8,000 units over a two-year period at a cost of B/.220 million. It was over and above the CSS's normal program of mortgage finance for its members, and involved the Agency as direct promoter and financial guarantor of the venture. The project was suspended in July 1982, amidst accusations of corruption and financial mismanagement which assumed the proportions of a national scandal. Only 2,500 units had been completed or started; over B/.100 million had been spent by mid-1984, implying an average unit cost of some B/.40,000 compared to an initial estimate of B/.27,500. Due to these large capital outlays, and despite a larger current surplus, the Agency had an average annual deficit of B/.35 million between 1981 and 1983, compared to B/.4.8 million average between 1971 and 1980.

Table 3.5: SUMMARY OF FINANCES OF THE SOCIAL SECURITY AGENCY a/
(Millions of Balboas)

	1971-75 Average	1976-79 Average	1980	1981	1982	1983 b/
Current Revenue c/	84.1	150.8	291.1	266.7	318.7	333.1
Current Expenditure c/	80.0	145.0	197.0	235.7	266.5	314.7
Operating Surplus or Deficit (-)	4.1	5.8	22.1	31.0	52.2	18.4
Capital Expenditures	6.8	14.1	23.7	63.2	95.4	47.5
Overall Surplus Deficit (-)	-2.7	-8.3	-1.6	-32.2	-43.2	-29.1

a/ Cash outlays, not accruals.
b/ Preliminary.
c/ Excluding current transfers to and from Central Government.

Source: Statistical Appendix, Table 5.5.

3.13 The potential state of CSS finances gives serious cause for concern. The substantial surpluses which the Agency is currently earning, need to be invested in assets which yield amounts sufficient to enable the Agency to meet future pension obligations. Instead, they have either been spent on ill-conceived schemes, such as the PCV, or invested in low yielding loans to public entities such as the National Mortgage Bank (BHN). Moreover, the Central Government and some other public sector institutions only pay a small portion of the contributions for their employees in the form of cash. The rest accumulates as Treasury debts, corresponding to the recent unpaid contributions, and of long-term bonds (carrying an eight percent average annual interest for the most recent bonds) into which the Treasury debts are eventually converted. As of September 30, 1983, total assets of the CSS were valued at just over B/.1 billion, of which half consisted of the accumulated debts of the rest of public sector. A further 30 percent consists of current assets, made up mostly of contributions due but not paid and a large non-interest bearing checking account in the National Bank of Panama (the latter has fluctuated around B/.60 million between early 1982 and mid-1984, before dropping sharply in the second half of the latter year). Only about 4.5 percent of the Agency's financial portfolio is invested in relatively high yielding assets. As a consequence, the annual cash rate of return on financial assets averaged only 4.3 percent between 1981 and 1983. This means that the real value of the reserves, which will eventually be drawn upon to meet future pension obligations, is falling.

3.14 An analysis has been made of the financing of the CSS's future pension obligations. This indicates an actuarial deficit of about B/.275 million [3/]. This estimate was made by an international actuarial expert contracted by the CSS who based his calculations on conservative assumptions; the true actuarial deficit is probably much greater. As part of CSS studies now underway, a more refined analysis of the deficit will be made, together with recommendations of the actions necessary to prevent its conversion into a major public sector cash crisis.

3/ An actuarial deficit means that the present value, at a given reference date, of future pension obligations exceeds the value at that date of the reserve available to meet them. The rate of interest at which the future obligations are discounted should approximate the expected rate of return on the reserve fund. The deficit of B/.275 million assumes, first, a discount rate of 5 percent and, second, that no increase is granted to existing pensions to compensate for inflation. If it is assumed, more realistically, that the rate of return on the reserve, and hence the rate at which future obligations are discounted, is 4.5 percent, and that pension obligations are increased by two percent annually to provide partial protection against inflation, then the resulting actuarial deficit is more than doubled.

Table 3.6: SOCIAL SECURITY AGENCY: ESTIMATED ACTUARIAL DEFICIT AS OF DECEMBER 31, 1982 a/

	B/. millions
Present value of obligations b/	983.3
Value of accumulated funds	707.2
Actuarial Deficit	276.1

a/ Takes into acount increases in pension obligations granted on 1/1/83

b/ Discounted at five percent per year.

Source: Social Security Agency

3.15 If the real value of capital which it has invested in loans to the Central Government and other public entities proves unrecoverable, then the CSS will be unable to meet its future pension obligations. The extent to which past errors can be compensated by further increases in contribution rates is severely limited. Social Security contributions are, in essence, an employment tax and already constitute a major disincentive to job expansion. Moreover, from July 1984, the Agency lost an important source of revenue. Traditionally, in December of each year most employees are given their normal monthly pay plus an additional "thirteenth month" pay check. Through a tax, CSS had been given one-third of the "thirteenth month" bonus. After July 1984 this arrangement ceased, and it will thereby lose some B/.40 million in annual cash revenue. Most of this money was on-lent by the CSS to the BHN. To date, there have been no announcements of a reduction in BHN's housing program or in CSS benefits to compensate for this.

D. The Decentralized Agencies

Overview

3.16 The principal decentralized agencies are the development banks (BDA, BHN and COFINA), the institutions of higher education (University of Panama and Human Resources Development Institute) and the Agricultural Marketing Institute (IMA). They account for only about 5 percent of consolidated public sector revenue and have no authority to levy taxes. They rely mostly on Central Government transfers and short-term foreign borrowing to finance their expenditures. Their overall operating deficit averaged about B/.30 million annually between 1978 and 1981 before jumping to B/.45 million in 1982, and to B/.50 million in 1983. These agencies also rely on their operating revenues to finance expenditures.

Table 3.7: CONSOLIDATED OPERATIONS OF THE DECENTRALIZED AGENCIES, 1978-83
(Millions of Balboas) a/

	1978	1980	1981	1982	1983 b/
Current Revenue c/	34.7	54.5	64.1	67.1	71.2
Current Expenditure c/	58.8	83.9	92.7	112.8	121.4
Operating Deficit	-24.1	-29.4	-28.6	-45.7	-50.2
Capital Expenditure	67.0	60.6	65.6	99.9	68.0
Special Capital Receipt	-	-	-	-	34.0 d/
Overall Balance	-91.1	-90.0	-94.2	-145.6	-84.2

a/ Cash outlays, not accrual.
b/ Preliminary.
c/ Excluding transfers to and from Central Government.
d/ Proceeds of sale of Marriott Hotel by COFINA; included in current revenues in consolidated public sector accounts.

Source: Statistical Appendix, Table 5.3.

3.17 The BDA and IMA are discussed in Chapter IV (paras. 4.22 through 4.34). This section therefore concentrates on the remaining two development banks (COFINA and BHN) and the higher education institutions.

The National Finance Corporation (COFINA)

3.18 COFINA, a wholly Government-owned company, was established in 1975 with the objective of providing longer term finance to industry. After suffering for several years from frequent changes in management, poor project evaluation, inadequate project supervision, and extension of credit based on political considerations, COFINA's financial situation had become critical by mid-1982. A review revealed that 95 percent of the B/.78 million portfolio was nonperforming; loans amounting to B/.30 million had to be written off, and accrued interest losses were a further B/.7 million. By late 1982, lending operations had essentially ceased. During the second half of 1983, the Corporation was engaged in restructuring its capital with a view to majority private sector ownership including participation from commercial banks. The Central Government has assumed responsibility for COFINA's debts.

Table 3.8: COFINA: SUMMARY ACCOUNTS a/
(Millions of Balboas)

	Annual Average 1975-1979	1980	1981	1982	1983
Current revenues	1.9	5.1	9.9	5.5	10.7
Current expenditures	1.5	5.9	5.1	9.5	15.5 d/
Current surplus or deficit (-)b/	0.4	-0.8	4.8	-4.0	-4.8
Capital expenditures c/	9.0	18.1	22.2	27.4	10.9
Capital receipt					34.0 e/
Overall surplus or deficit (-)	-8.6	-18.9	-17.4	-31.4	18.3

a/ Cash basis.
b/ Before transfers.
c/ Net lending to the private sector except where otherwise indicated.
d/ Mostly payment of commercial guarantees.
e/ Special receipt of B/.34 million from the sale of the Marriott Hotel.

Source: World Bank estimates.

3.19 Those restructuring efforts were initially hampered by pre-electoral political uncertainties. However, even after the broad thrust of the new Government's economic policy had been made clear in late 1984, little active interest on the part of the private sector had materialized. This lull is not inconvenient. At present, demand for investment funds is weak, in particular for new ventures requiring long term loan capital. On the other hand, if the new Government continues to show a positive attitude towards the private sector, and there is a strong economic recovery, there could be an upsurge of demand for investment finance.

3.20 Before that occurs, it may be opportune to reconsider the role of development finance in the Panamanian context. For some time it has been widely assumed that there is a shortage of long term financing for industry and that the establishment of a Development Finance Corporation (DFC) is the best way to alleviate it. No recent attempt has been made, however, to analyze the true extent of the problem, or the most appropriate way of solving it. There is unanimity among bankers and entrepreneurs in Panama that established, creditworthy corporations receive all the funding they require from the commercial banks. The discussion should therefore be focussed on small or medium size firms, who may wish to start a viable venture, but are constrained by lack of funds. In particular, the guarantees required by the commercial banks, which may extend to a lien on assets two-and-a-half times the value of the loan, may be a limiting factor. To determine the real extent of the constraint, an in-depth investigation of the industrial demand for credit should be conducted to determine:

(a) Whether long term funds or working capital is the most important constraint, especially for export finance, and for the small or medium sized firms which would be the principal beneficiaries of the DFC. If working capital is more important, it may be more readily obtained from the commercial banks.

(b) The extent to which the requirements for riskier, small scale ventures are perforce met by short term credits which may be rolled over. The risks to the borrower of frequent interest rate changes and the withdrawal of credit at short notice are inherent in such arrangements.

(c) How small and medium sized enterprises adjust to the possible shortage of term financing. Do they invest less or concentrate resources on activities with rapid payback periods, or both?

The National Mortgage Bank (BHN)

3.21 Private housing finance in Panama, serving the needs of middle and upper class clients, works well in a liberal environment. Substantial advantage is taken of the presence of many banks in the country to tap financial resources for mortgage investment. In 1983, the banking system had B/.616 million in outstanding credits to the housing sector, representing 18 percent of its total domestic portfolio. In the public sector, institutions have, by contrast, been less than successful either in mobilizing funds or in meeting the shelter needs of the great majority of low income families. This is partly because the main institution involved, the National Mortgage Bank (BHN), has suffered from operational and financial deficiencies which have impeded its ability to mobilize resources and execute programs.

3.22 The BHN is the financial arm of the Ministry of Housing (MIVI) and has the task of mobilizing financial resources for MIVI's programs. It also functions as the regulatory agency of the five Panamanian Savings and Loan Associations. In practice, the bank suffers from lack of operational autonomy essential to the efficiency of any financial institution, and is frequently denied the auditory capacity required to verify MIVI's use of its funds.4/ Given the total size of its assets (less than B/. 300 million) and the fact that MIVI, not the bank, services the mortgage portfolio, it should only require about half its present work force of 150 employees. The result has been perennial operating deficits and disorder in the Bank's internal accounting. Funds generated for MIVI projects have fluctuated considerably from year to year, and chronic operational deficits have necessitated large Central Government contributions. These subsidies are provided *ex post*, rather than being budgetted for in advance. They averaged B/.4.5 million annually between 1980 and 1982.

4/ In November 1984, legislation was being prepared to legally restructure BHN. This would include ending its effective obligation to finance Housing Ministry projects.

3.23 Other than these injections of government capital, the BHN's main sources of funds are low interest loans from the CSS, cash flows from its existing loan portfolio, and loans from USAID and other international organizations. In the past the bank also borrowed substantial short term commercial funds to help meet its operating deficit and to finance construction programs; the total commercial bank debt still outstanding as of December 31, 1983 was B/. 18.6 million5/. The only consistent source of funds for the BHN has been the loans from the CSS mostly financed from the "thirteenth month" contributions; terms have been 10 years at 3 percent annual interest. However, these contributions are no longer available to the CSS. As of December 31, 1983, the total of outstanding "thirteenth month" loans from the CSS to the BHN was B/.127 million, nearly 60 percent of the value of the bank's housing portfolio and 63 percent of its total debt.

3.24 Ironically, the cut off of this vital source of regular cheap funding immediately followed the introduction of a number of important reforms in the BHN. In 1983, the bank revised its interest rate policy. Instead of interest rates on BHN loans being fixed arbitrarily on a case-by-case basis by MIVI, most new loans carry a standard rate of interest, currently 12 percent annually. Moreover, a procedure was established by which MIVI should only receive money from the BHN for projects backed by proper studies which meet established social criteria; disbursements should only be made against vouchers of work performed. Projects cannot commence until MIVI has received formal assurance from the BHN that there are funds available to finance them. The bank is no longer permitted unrestricted access to commercial loans. In an effort to stimulate greater reliance on loan recoveries, the Government has stated its intention to gradually eliminate the direct subsidy.

3.25 This intention is clearly threatened by the loss of the "thirteenth month" contributions. Indeed, the BHN will soon face a major financial crisis if a new source of funds is not found. The measures either taken or contemplated to meet this situation are clearly inadequate. First, the period of repayment to the CSS of the "thirteenth month" contributions has been extended from 10 to 25 years. Second, an agreement was reached in October 1982, whereby BNP, the Caja de Ahorros 6/ and the CSS promised to purchase BHN bonds valued at up to B/.16 million over a three-year period. Future purchases, however, would be determined in the light of each institution's budgetary constraints. These sources together are unlikely to compensate the bank for the loss of the regular CSS contribution.

5/ A further B/. 8 million outstanding in commercial credits was assumed by the Central Government.

6/ A profitable state owned savings bank which provides substantial amounts of housing finance to its mostly middle class depositors.

The University of Panama

3.26 The University of Panama has shown dramatic growth since the early 1970's. Between 1971 and 1983, the number of students attending rose from 14,500 to 39,100, equivalent to a growth rate of 8.6 percent per year. In 1982, 72 percent of the students benefitting from tertiary education attended the University. The number of teachers (excluding the regional campuses) rose from 484 to 2,100 over the same period. Total capital and current cash cost outlays per student increased from B/.537 to B/.956 per year. Between 1971 and 1978, costs per student were falling in both nominal and real terms; since that latter date, they have risen sharply: by 13.8 percent per year in nominal terms, and by 6.1 percent per year in constant 1970 prices. This coincided with a rapid expansion in the teaching staff and an equally rapid decline in the student/teacher ratios.

Table 3.9: UNIVERSITY OF PANAMA: SUMMARY INDICATORS

	1972	1978	1983a/
Number of students	17,678	32,386	39,114
Number of teachers	529	1,100	2,057
Students per teacher	33	29	19
Graduates as percent of students	4.9	8.5	8.5
Students per classroom	106	100	102
Capital outlays per student (1970 balboas)	47	8	90
Current outlays per student (1970 balboas)	453	305	330

a/ Preliminary.

Source: Comptroller General.

3.27 The University's current revenues are very small and cover, on average, little more than 10 percent of current expenditures. Nearly all recurrent costs and all capital expenditures are therefore a direct charge on the fisc. Current and capital expenditures combined have averaged over two percent of the consolidated expenditures of the entire public sector since 1972, while the University's 1980-83 deficit was 10 percent of the public sector total. The extent to which the University's expansion has contributed to economic growth in Panama is a complex subject beyond the scope of this report. However, short and medium term fiscal constraints will likely dictate severe limitations on future current and capital expenditures.

Table 3.10: UNIVERSITY OF PANAMA: SUMMARY ACCOUNTS
(Millions of Balboas)

	Annual Average 1971-75	Annual Average 1976-79	1980	1981	1982	1983
Current revenues	1.6	2.2	3.6	2.3	3.0	4.0
Current expenditures	10.5	16.0	21.0	23.5	26.7	29.4
Operating deficit	-8.9	-13.8	-17.4	-21.2	-23.7	-25.4
Capital expenditures	2.8	1.3	3.9	4.8	5.8	8.0
Overall balance	-11.7	-15.1	-21.3	-26.0	-29.5	-33.4

Source: IMF and World Bank estimates.

Human Resources Development Institute (IFARHU)

3.28 This Institute, which has granted scholarships and loans to university students in Panama and abroad since 1975, is another increasingly significant fiscal drain. Approximately half its total expenditure is meant to be self financing from loan recoveries and is not therefore recorded as net lending in the national capital budget. In practice, however, students rarely repay these loans which consist, in effect, of a government subsidy directly to the students and indirectly to the University. The number of loans and scholarships outstanding has risen from 3,132 in 1976 to 11,733 in 1982; over the same period, the Institute's annual net outlays rose from B/.9.5 million to B/.16 million. This is a further item of expenditure which is scarcely compatible with the need for fiscal austerity. It is recommended that a system be introduced to ensure loan recovery, while not undermining equity principles; this might be done, for example, through systematic deductions from the graduate students' salaries.

Table 3.11: IFARHU: SUMMARY OF OPERATIONS
(Millions of Balboas)

	Annual Average 1976-79	1980	1981	1982	1983
Current Revenues	0.7	1.8	2.4	2.8	3.1
Total Expenditures	9.6	15.2	14.7	18.8	17.9
Deficit	-8.9	-13.4	-12.3	-16.0	-14.8
Number of loans and scholarships outstanding	5,162	8,807	11,680	11,733	n.a.

Sources: Comptroller General and World Bank estimates.

E. The Public Sector Enterprises

Overview

3.29 The main public sector enterprises are the utility companies (IRHE, INTEL and IDAAN), the La Victoria Sugar Corporation, the Bayano Cement Company, the Colon Free Zone and the Port Authority. They accounted for 94 percent of all the enterprises' operating surplus between 1980 and 1982 and 96 percent of their capital expenditures. Their consolidated accounts have improved considerably since the mid to late 1970s. Since 1981, they have averaged a current surplus of nearly B/.60 million, equivalent to about two percent of GDP. This was due mainly to substantial price hikes; utility and port tariffs were raised several times and the finances of the La Victoria Sugar Corporation and Bayano Cement Company improved as they began to operate nearer full capacity. However, revenue increases concealed deteriorating efficiency, which was passed on directly to the consumer. Capital expenditures, except for a surge in 1982 due to the Fortuna hydroelectric cost overrun, declined since 1980 as a number of large capital projects were completed.

Table 3.12: CONSOLIDATED OPERATIONS OF THE PUBLIC SECTOR ENTERPRISES a/
(Millions of Balboas)

	Annual Average 1971-75	Annual Average 1976-79	1980	1981	1982	1983 b/
Current Revenue c/	68.9	183.6	361.9	427.1	436.0	501.1
Current Expenditure c/	50.8	182.3	318.4	364.7	394.8	430.7
Operating Surplus or Deficit (-)	18.1	1.3	43.5	62.4	41.2	70.4
Capital Expenditure	63.4	195.3	116.1	117.1	179.4	126.0
Overall deficit	-45.3	-194.0	-72.6	-54.6	-138.2	-55.6

a/ Cash outlays, not accrual.
b/ Preliminary.
c/ Excluding transfers to and from Central Government.

Source: Statistical Appendix, Table 5.4.

3.30 Of the most important public enterprises, the La Victoria Sugar corporation is considered in Chapter IV, the Colon Free Zone in Chapter VI, and the Port Authority in Chapter VI. In this section, therefore, the discussion concentrates on the public utilities and the Bayano Cement Company.

The Hydroelectric Resources Institute (IRHE)

3.31 IRHE was created in 1961 for the purpose of planning, constructing and operating all electric power generation required by the country. For several years it fulfilled this function alongside private generating and distributing companies. In stages, the Authorities have provided IRHE with a satisfactory case for operating as an autonomous entity, and have purchased the assets of the private utilities, vesting them in IRHE. This process was largely completed by the end of 1976. Today, the institution is the sole utility providing electrical energy to the entire country, with the exception of the area served by the Panama Canal Commission and some minor plants in isolated areas. 7/

Table 3.13: IRHE: SUMMARY ACCOUNTS a/
(Millions of Balboas)

	Annual Average 1971-75	Annual Average 1976-79	1980	1981	1982	1983
Current Revenue	35.3	89.7	145.9	168.7	198.7	241.4
Current Expenditure	28.3	75.5	116.4	124.4	156.7	213.0
Operating Surplus or Deficit (-) b/	5.0	14.2	29.5	44.3	42.0	28.4
Capital Expenditure	29.0	70.9	54.7	69.0	123.2	93.1
Overall surplus or deficit (-)	-24.0	-56.7	-25.2	-24.7	-81.2	-64.7

a/ Cash basis.
b/ Before transfers to the rest of the public sector.

Source: IMF and World Bank estimates.

3.32 As the above table shows, IRHE has generated a substantial operating surplus in recent years. This surplus is important fiscally; between 1980 and 1983, it accounted for two thirds of the surplus of all state enterprises and nearly one third of consolidated public sector savings. Tariffs were raised several times in order to cover increased costs of imported petroleum. The average electricity tariff rose, in real terms, by 50 percent between 1975 and 1983. This has enabled IRHE to earn a satisfactory rate of return, on revalued assets, which has averaged a little under 7.5 percent per year since 1976.

7/ Electricity services to the Canal facilities and adjacent areas are provided by the Panama Canal Commission which has an installed capacity of 210 MW. The systems of the Commission and IRHE are interconnected and exchange of power and energy takes place efficiently on a daily basis without a formal exchange contract.

3.33 From the viewpoint of the institution itself, and from that of the fisc, it is important to maintain adequate tariff policies which both reflect the cost of the service provided and generate a contribution to capital expenditures. It is for this reason that IRHE has agreed to set tariffs to earn an 8.75 percent rate of return from 1980; this is the maximum allowed by law. However, as with all monopolies, there is a danger that a cost plus tariff policy will pass inefficiencies on to the consumer without adequate attention paid to the reduction of costs.

3.34 This is what may have occurred in the case of IRHE. Since 1975, the current cash cost of producing each kWh of electricity sold has risen from 4.7 US cents to 11.5 US cents in 1983. In constant 1970 prices this represents an increase of 55 percent or 5.6 percent per year. This partially reflects the rising cost of imported fuel oil which IRHE uses to fire its thermal generators, and for which it is currently paying higher than world prices to the local refinery. Nevertheless, other performance indicators have deteriorated markedly, particularly those reflecting labor productivity and system losses.

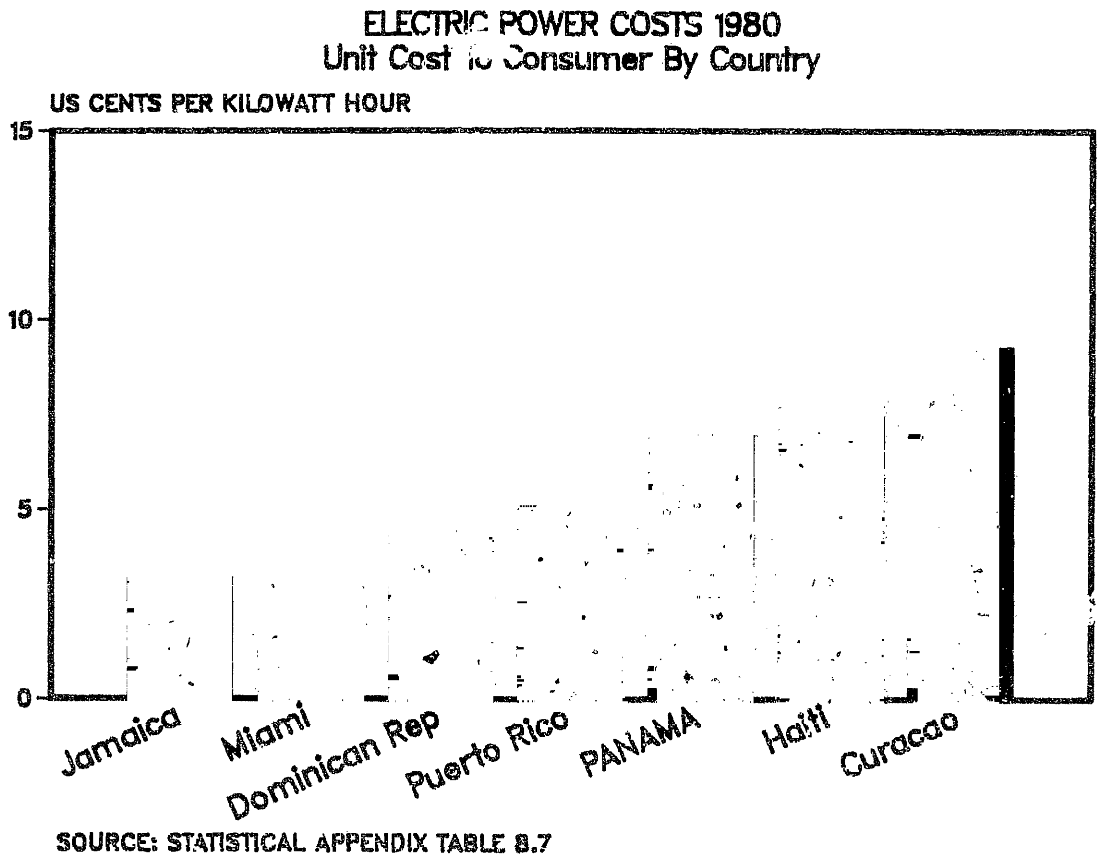
Table 3.14: IRHE: PERFORMANCE INDICATORS: ANNUAL AVERAGES 1976-78 and 1981-83

	1976-78	1981-83
Employment a/	3,802	5,393
Number of customers per worker	52	47
Quantity of electricity sold per worker b/	315	314
System losses (%) c/	13.0	16.3
Cash cost per unit sold d/	3.8	4.4
Financial rate of return e/	7.4	7.3
Debt/equity ratio	47/53	44/56

a/ Total employment including construction workers and temporary employees.
b/ In gigawatt hours.
c/ As percentage of total electricity generated.
d/ In constant 1970 prices, deflated by the consumer price index, expressed in US cents per kilowatt hour.
e/ On revalued assets.

Source: World Bank Staff Appraisal Reports.

Graph 3.2


ELECTRIC POWER COSTS 1980
Unit Cost to Consumer By Country
US CENTS PER KILOWATT HOUR
15
10
5
0
Jamaica
Miami
Dominican Rep
Puerto Rico
PANAMA
Haiti
Curacao
SOURCE: STATISTICAL APPENDIX TABLE 8.7

3.35 These performance indicators compare unfavorably with those of other utilities in other countries which compete with Panama in industrial export markets. For example, one of the productivity indicators, the number of customers served per employee, was 47 in Panama in 1982 as compared to 75 and 95 for the power sectors of Costa Rica and Ecuador respectively, and 62 for both Haiti and Jamaica. In order to cover IRHE's relatively high costs, electricity tariffs are considerably higher than those of most other countries of the Region. 8/ Such comparisons should, however, be treated with caution because, in some cases, low tariffs may be financed by fiscal subsidies (Graph 3.2).

3.36 IRHE's high tariffs reflect high labor and debt servicing costs. The entity's total wage bill (including social charges and benefits) rose from B/.12 million in 1977 to B/.39 million in 1983, a real annual increase of 14 percent. Average labor costs per employee doubled over the same period from B/.300 to B/.600 per month, a real annual increase of over 5 percent. This occurred while real wages in both the private sector and the rest of the public sector were declining. With regard to debt servicing, IRHE is the largest single public sector borrower outside the Central Government itself; its medium and long term debt, of US$433 million at the end of 1983, represented nearly half the total outstanding and disbursed obligations of the public sector apart from the Central Government. The entity's short-term debt is also significant. This stood at US$48 million at the end of 1983, 63 percent of the total for the entire non-financial public sector. Much of this short-term debt was incurred as bridging finance to purchase equipment ultimately financed by loans from multilateral agencies. Total annual interest payments on IRHE's debt averaged US$24 million per year between 1980 and 1983, equivalent to 15.5 percent of total current cash outlays. The interest burden would have been still higher were it not for the practice of capitalizing interest due on loans financing certain important construction activities. With the conclusion of the Fortuna project construction in 1984, cost outlays on interest may be expected to increase sharply.

3.37 Despite its high debt burden and deteriorating cost performance, IRHE's future outlook is promising for a number of reasons. First, in 1983 there was some improvement in the performance indicators (electricity sold per worker rose and system losses fell), though they remained inferior to those of the mid to late 1970s. Second, preliminary figures indicate that overall operating costs fell after the Fortuna project came on stream in late 1984 so that the entity's current surplus should increase. Third, there should be no capital expenditures on large scale hydroelectric projects for at least the remainder of this decade. Increased demand will instead be met through investments in smaller hydro-electric or coal fired projects. Commencement of constructing the next large scale project, Changuinola, has been postponed from 1988 to 1992, and may well be delayed further. In order to consolidate these gains, a detailed study of IRHE's cost structure could be made to determine where reductions could be realized. The cost burden on the rest of the economy may thereby be lowered without prejudicing the financial health of the institution.

8/ In 1983, the average tariff charged to all consumers in the following countries was as follows (in cents per kilowatt/hour): Guatemala 13.5; Panama 12.7; Nicaragua 11.1; Honduras 8.2; El Salvador 5.3; Costa Rica 4.6.

The National Water and Sewerage Institute (IDAAN)

3.38 IDAAN was created in 1961, and is responsible for the operation of public water supply and sewerage facilities in communities of over 500 inhabitants throughout the country. Water supply and sanitation service levels in Panama are high by Latin America standards. By the early 1980's, some 85 percent of the population had access to public water supply systems compared to 70 percent a decade earlier. The quality of water supply services provided by IDAAN is generally good. In urban areas, potable water is available around the clock for the great majority of communities. Although in rural areas, where 70 percent of the population is served, quality of service is less reliable and depends on the local communities' ability to maintain and operate their systems, Panama enjoys considerably more freedom from water-related diseases than most tropical countries.

3.39 Financially, and in operational terms, the Institute's record since the mid 1970's has been mixed. Thanks to a more realistic pricing policy, current revenues have increased sharply. The average water tariff rose from B/.0.56 per 1,000 US gallons in 1976 to B/.0.86 in 1979 before falling back to B/.0.79 in 1981 and rising again to B/.1 in 1982. Income from higher tariffs has enabled IDAAN to finance a substantially greater proportion of investment from internally generated resources than was the case in the early 1970's. However, costs also increased sharply in the late 1970's: between 1976 and 1979 current cash outlays per water connection rose from B/.112 to B/.162, equivalent to 7.5 percent per year in real terms. Since then, real unit costs have fallen slightly but in 1982 were still some 10 percent higher than in 1976.

Table 3.15: IDAAN: SUMMARY ACCOUNTS a/
(Million of Balboas)

	Annual Average 1971-75	Annual Average 1976-79	1980	1981	1982	1983 c/
Current Revenue	9.3	20.0	24.6	27.9	37.5	41.3
Current Expenditure	7.2	13.9	21.8	25.2	32.2	33.1
Operating Surplus b/	2.1	6.1	2.8	2.7	5.3	8.2
Capital Expenditure	12.8	7.9	5.1	6.9	8.5	9.4
Overall Deficit	-10.7	-1.8	-2.3	-4.2	-3.2	-1.2

a/ Cash basis.
b/ Before transfers.
c/ Preliminary.

Source: IMF and World Bank estimates.

3.40 The improved unit cost performance since 1979 is mainly due to the rapid expansion in services: water production has been growing at 12 percent per year and the number of water supply connections by 6 percent. The number of employees, permanent and temporary, increased from 1,939 in 1976 to about 2,300 in 1982. Although the number of employees per 1,000 water connections has fallen from 19 to 15 over the same period, this remains very high compared to other Latin American water utilities of similar size. Even with the low degree of mechanization of most of the small systems located around the country, a ratio of no more than 9 employees per 1,000 connections would be justified. There may also be considerable scope for improving tariff collection through increasing the percentage of water supplies which are metered; the quantity of water unaccounted for has also risen significantly in recent years and was estimated at 36 percent by 1982. Improving these indicators will be necessary to increase internal cash generation and to contribute to the entity's investment plans for the remainder of this decade.

Table 3.16: IDAAN: PERFORMANCE INDICATORS

	1976	1979	1981
Water Production (000 US gals)	18.44	26.24	33.00
Water Sales (000 US gals)	16.23	15.99	17.60
Percentage of unaccounted-for water	30.5	37.7	37.1
Percentage of non-metered connections	53.4	63.6	60.3
Number of employees a/	1,939	1,994	2,291
Employees/thousand water connections	19	15	15
Current cash cost per water connection (B/.) b/	76	94	80

a/ 83 percent permanent and 17 percent temporary.
b/ In constant 1970 prices deflated by the consumer price index.

Source: World Bank Staff Appraisal Reports

The National Telecommunications Institute (INTEL)

3.41 INTEL was created in 1974, following the nationalization of the foreign enterprise then providing domestic telephone services, and was given exclusive rights to construct and exploit the country's telephone and telecommunications network. Since then, all existing assets have been invested in INTEL; an international exchange has been installed to permit INTEL to handle international services previously provided by private corporations; and the Institute has also taken over the telegraph and telex services which had corresponded to the National Directorate of Telecommunications. INTEL therefore exercises an effective monopoly over all telecommunication services in Panama. Density of coverage (about 10 telephones per 100 people) is superior to all countries of the Region except Argentina, Uruguay and Costa Rica. In general, standards of service are substantially higher than those of practically all other countries of the Region. Excellent telecommunications, however, are a necessity rather than a luxury for Panama with its considerable dependence on internationally oriented commercial and financial services. Although the quality of service is still good, there have been some signs of deterioration in recent years, and these must be swiftly checked if the country is to maintain its important comparative advantage in this area.

Table 3.17: INTEL: PERFORMANCE INDICATORS

	1974	1977	1980	1982
Number of telephones	120,401	145,344	173,482	197,005
Number of telephones per 100 inhabitants	7.8	8.6	8.9	9.6
Current revenue per telephone (B/. per annum) a/	110	103	157	181
Current cost per telephone a/ (B/. per annum)	45	66	100	127

a/ In constant 1970 prices deflated by the consumer price index.

Source: Comptroller General and World Bank estimates.

3.42 Since its foundation, INTEL has generated a significant current surplus, second only to that of IRHE in importance among the public enterprises. This has enabled it to finance, over the 1974-83 period as a whole, all its capital expenditures and still have some resources to contribute to the overall fiscal balance. As a consequence, its medium and long term debt, nearly all related to suppliers' credits, is small: at US$41 million at the end of 1983 it amounted to just over one percent of the total for the nonfinancial public sector. Interest payments of about US$5 million in 1983 were only some 8 percent of INTEL's current revenues.

Table 3.18: INTEL: SUMMARY ACCOUNTS a/
(Millions of Balboas)

	Average 1974-79	1980	1981	1982	1983 c/
Current revenues	27.9	53.8	70.7	78.5	84.7
Current Expenditures	15.9	34.3	50.6	53.5	60.3
Current surplus b/	12.0	19.5	20.1	25.0	24.4
Capital Expenditures	13.5	25.9	14.8	13.0	5.5
Overall Surplus or deficit(-)	-1.5	6.4	5.3	12.0	18.9

a/ Cash basis.
b/ Before transfers to the rest of the public sector.
c/ Preliminary.

Source: IMF and World Bank estimates.

3.43 The institution's excellent financial performance conceals a deteriorating trend which, if allowed to continue, could eventually lead to an overall financial deficit. While average revenues per telephone have increased from B/.148 per year in 1974 to B/.405 per year in 1983 (equivalent to an annual increase of 5.5 percent in constant 1970 prices), current costs per telephone have risen much faster from B/.60 in 1974 to B/.288 in 1983 (equivalent to 12.2 percent per year in constant prices). As a consequence, the operating surplus as a proportion of current revenues fell from an average of 44 percent between 1974 and 1979 to 31 percent between 1980 and 1983. This is unusual for a telecommunications institution where substantial investments in modernized automated equipment should lead to reductions in current unit costs, at least in real terms.

3.44 The fact that tariffs have risen less rapidly than costs, plus some degree of cross subsidization of international by local services, has kept Panama's international tariffs competitive with those of neighboring countries (Table 3.19). As of mid 1983, only the USA (Miami) and Costa Rica, of the countries chosen, had significantly cheaper rates for calls within the Region, the first because of economies of scale and the second because of an undervalued exchange rate. Nevertheless, the trend of unit operating costs gives serious cause for concern, and a thorough study could be made of INTEL's cost efficiency procedures to identify the scope for larger savings.

Table 3.19: INTERNATIONAL TELEPHONE RATES IN SELECTED COUNTRIES, MID 1983 a/

Panama	1.70
USA (Miami) b/	1.41
Guatemala	1.65
Costa Rica	1.33
El Salvador	1.65
Jamaica	3.92
Dominican Republic	6.00
Haiti	6.00
Barbados	7.78

a/ In US dollars per minute, average standard rates for a direct dial call to the US.
b/ For calls to Central America and the Caribbean.

Source: World Bank estimates.

The Bayano Cement Company (Cemento Bayano)

3.45 Construction of the Bayano cement project began in 1975, and production of cement on a significant scale in 1979. At the time of its foundation, the local market was adequately supplied by two private firms. One of the private firms closed down in 1976. In 1977 and 1978, the remaining private company, Cemento Panama, supplied the entire domestic market of some 270,000 metric tons per year.

3.46 The combined capacity of the two cement plants is now approximately double the size of the local market. The Government's stated original intention was therefore to export a substantial proportion of Cemento Bayano's output. In the event, production costs ruled this out: at full capacity the plant's total cost is about B/.72 per ton of bagged klinker 9/, more than double the current international price. The plant is oil fired and uses the "dry kiln" method to produce klinker. Fuel and energy costs are high: each ton of klinker produced in 1983 required 25.4 gallons of fuel oil at 90 cents per gallon, and 69.5 kilowatt hours of electricity at 13 cents each. These two items alone amounted to B/.32 per metric ton, 43 percent of the production cost of the klinker, and just over a quarter of the consumer price of the cement. Interest payments on medium and long term debt between 1978 and 1983 accounted for a further 10 percent of total costs.

9/ Made up of B/.56 in direct production costs, B/.11 in depreciation and B/.5 in financial costs.

3.47 Costly as it is, however, the Bayano plant is more efficient than the "wet" process (also oil fired) employed by Cemento Panama. The private plant found its output cut back because of competition from Bayano in the local market, and its costs per ton sold rose dramatically to over B/.90 per ton of clinker. Rather than allow this company, which employs some 400 people (it is one of the largest industrial employers in Panama), to go bankrupt, a contractual arrangement was made in January 1981 through which Cemento Panama ceased to produce klinker but instead bought it in bulk from Cemento Bayano. In order to accomodate this arrangement, the domestic market was formally divided between the two companies with Cemento Panama having approximately 58 percent and Bayano 42 percent.

3.48 The contractual arrangement lasted three years, during which time Cemento Panama modernized its plant so that it could resume production of klinker. To generate the cash necessary for this, it bought klinker from Bayano at around B/.50 per metric ton, well below cost, and sold cement at the controlled price, which was increased in 1981 from B/.106 per metric ton to B/.120 for this purpose. Because Bayano can sell its own cement at the controlled price, its revenue was sufficient to finance this subsidy, although its ability to generate a cash surplus was severely compromised. The cost of the arrangement was therefore shared by the fisc and the consumer who, since 1981, has been paying three times the international price for cement.

Table 3.20: CEMENTO BAYANO: SUMMARY ACCOUNTS a/

	Accumulated 1975-79	1980	1981	1982	1983 b/
Current revenue	6.8	14.1	19.1	23.0	32.2
Current Expenditure	18.6	15.0	16.7	18.9	16.8
Current Surplus or deficit c/ (-)	-11.8	-0.9	2.4	4.1	6.4
Capital Expenditure	95.5	1.1	-	0.6	4.1
Overall Surplus or deficit (-)	-107.3	-2.0	2.4	3.5	2.3

a/ Cash basis
b/ Preliminary
c/ Before transfers.

Source: IMF and World Bank estimates.

3.49 The prospects for an efficient cement industry in Panama are bleak. At the beginning of 1985, Cemento Panama will bring a refurbished coal fired process on stream; Bayano has also started to invest in conversion to coal. If these new processes function well, they should bring direct production costs down by at least B/.20 per ton. However, Cemento Panama will have an annual capacity of 150,000 metric tons while Bayano's will remain at 310,000 metric tons. At the height of the recent building boom in 1982, the total domestic market was about 350,000 metric tons, 76 percent of the combined capacity of the two plants. Even under a reasonably optimistic assumption of 5 percent annual growth in the demand for cement, both plants will be unable to operate at full capacity until 1990. Moreover, both are likely to press for continued high prices in order to recover recent and current investments in coal fired processes. The Panamanian consumer and economy will therefore likely continue paying a heavy price for the cement industry investment decisions of the 1970's.

F. The Public Investment Program

3.50 The Public Investment Program for the period 1983-85 is discussed in detail in Annex II. This section therefore summarizes its main features. When it was first prepared in late 1982, the Program envisaged a capital expenditure of some B/.390 million per year, equivalent to about 9 percent of GDP. This compares with an average of 15 percent between 1976 and 1979 and 10.5 percent between 1980 and 1982. However, due to lower than expected public sector revenues (because of the effects of the recession), and to the financial constraints imposed by heavy debt amortization obligations, further reductions are being made. Investment is even more heavily concentrated in projects yielding a high social and economic rate of return and which support private sector initiatives in export-oriented, employment generating activities.

3.51 The preparation of the public investment program in Panama is the responsibility of the Ministry of Planning and Economic Policy (MIPPE). This Ministry, and not that of Finance, also produces and monitors the current budget. A reasonably well qualified staff is responsible for planning public investment, and the institutional framework for the preparation of a coherent investment program is therefore in place. However, although central control procedures for project selection, analysis and execution have been strengthened in recent years, this process is far from complete. This is illustrated by some major recent departures from the budget, the most serious examples of which were a B/.25 million unbudgetted expenditure on a road in 1983, the excess of some B/.100 million on the Social Security housing program of 1981-83, and the B/.250 million Fortuna hydroelectric cost overruns in 1981-82. Although the cause of the excesses varies from case to case, they all share one common factor: the central planning authorities in MIPPE were not aware, at least in detail, of what was occurring until after the event, and were in each case presented with a costly _fait accompli_. This clearly demonstrates the need for strengthening not only MIPPE's own project planning capabilities, but also the authority of the planning staff, so that they can more effectively monitor the budgetting and accountability of the executing agencies.

3.52 The total amount spent in 1983 was B/.407 million, some 4 percent over the budget. There were, however, considerable changes in the sectoral distribution of expenditures compared to those in the original 1983-84 Investment Program (Table 3.21). In particular, outlays on infrastructure increased from B/.145.7 million to over B/.200 million, due principally to the excesses mentioned above. This was balanced by reduced social sector outlays, especially in health and housing, while in the directly productive sectors of agriculture and industry, net lending fell after lower than expected demand for credit from the private sector.

Table 3.21: COMPARISON OF PROGRAMMED, BUDGETTED AND ACTUAL CAPITAL EXPENDITURES BY SECTOR, 1983

(Millions of Balboas)

Sector	Original Budget a/	Percent	Revised Budget b/	Percent	Actually Spent c/	Percent
Productive Sectors						
Agriculture	68.9	17.7	42.5	10.9	57.7	14.2
Industry and Commerce	27.7	7.1	7.1	1.8	23.9d/	5.9
Sub-total	96.6	24.8	49.6	12.7	81.6	20.1
Social Sectors						
Education	18.3	4.7	16.0	4.1	18.5	4.5
Health	32.3	8.3	44.3	11.4	23.0	5.6
Housing	65.0	16.7	40.3	10.4	33.0	8.1
Sub-total	115.6	29.7	100.6	25.9	80.4	18.2
Infrastructure						
Energy	78.3	20.1	107.7	27.7	116.0	28.5
Tele-communication	12.1	3.1	16.6	4.3	5.5	1.4
Transport	55.3	14.2	76.6	19.7	82.2	20.2
Sub-total	145.7	37.4	200.9	51.7	203.7	50.1
Multisectoral and Tourism	31.6	8.1	38.4	9.9	47.3	11.6
TOTAL	389.5	100.0	389.5	100.0	407.1	100.0

a/ In accordance with the agreed 1983-85 Investment Program.
b/ As of September, 1983.
c/ Preliminary Estimate.
d/ Including the repayment of B/.10.9 million in loan and commercial guarantees by COFINA.

Sources: MIPPE and World Bank estimates.

3.53 The detailed capital budget for 1984 was revised twice since the initial preparation of the 1983-85 Investment Program. The first revision, at the end of 1983, involved modifications only in sectoral distribution and made the 1984 budget more closely consistent with the revised 1983 sectoral allocations. The second, in June, 1984, reduced the total expected outlay to B/.360 million, from the original B/.388 million, a prudent adjustment in view of the depressive effects of the continued economic recession on anticipated public sector revenues. The original and revised budgets are shown in the following table.

Table 3.22: REVISIONS OF THE 1984 PUBLIC INVESTMENT BUDGET

(Millions of Balboas)

Sector	Original Investment Budget 1984		Revised Investment Budget 1984	
	Amount	Percent	Amount	Percent
Productive				
Agriculture and Rural Development	77.0	19.8	45.4	12.6
Commerce and Industry	20.2	5.2	15.9	4.4
Subtotal	97.2	25.0	61.3	17.0
Infrastructure				
Energy	89.8	23.1	97.6	27.1
Transport	66.5	17.1	76.0	21.1
Telecommunications	10.9	2.8	14.1	3.9
Subtotal	167.2	43.0	187.7	52.0
Social Sector				
Education	14.8	3.8	19.3	5.4
Health	29.5	7.6	23.8	6.6
Housing	58.7	15.1	42.0	11.7
Subtotal	103.0	26.5	85.1	23.6
Other				
Tourism	0.5	0.1	0.5	0.2
Multisectoral and Community Projects	20.8	5.4	26.0	7.2
Subtotal	21.3	5.5	26.5	7.2
Total	388.7	100.0	360.5	100.0

Sources: MIPPE and World Bank estimates.

3.54 The 1985 outline budget, initially set at B/.392 million, has been revised to take account of the difficult financial situation the Government is likely to face during the year. Reductions of about B/.30 million have been proposed in comparison with the revised 1984 budget. This is prudent in the light of the likely public savings performance, and the small size of the consolidated deficit that can be financed. The reductions are in the following areas:

(a) In agriculture, a compensation payment to a multinational firm was completely paid in 1984; this and other economies would give a saving of about B/10.5 million.

(b) In transport, two major road projects on which B/.24 million was spent in 1984 will be completed, and a further B/.5 million would be cut from various penetration road programs.

(c) In energy, some B/.20 million should be saved after the completion of the Fortuna project; although there is some postponement of expenditures on ongoing projects, outlays on new projects would bear the greater part of the cuts.

(d) Some B/.3 million would be reduced from multisectoral outlays, especially some lesser priority community projects.

3.55 For the medium term, the availability of external credit will likely continue to be very limited while a foreseeable need for heavy current outlays in the social sectors will limit increases in public savings. In view of this, it would be prudent to aim for a total annual public investment of no more than some B/.450 million in current prices by the end of the decade, equivalent to some 6 percent of GDP. To maintain the momentum of development while keeping within these financial constraints will require careful investment planning by a strengthened project department within MIPPE.

G. Public External Debt

Growth and Structure of the Debt

3.56 The absence of both a Central Bank and the power to influence domestic money supply means that the public sector deficit can only be financed through dollar denominated borrowing. Indeed, in practice, the size of that deficit has been historically determined by the availability of foreign financing. Even short term lending to the non-financial public sector by the National Bank of Panama is limited by the bank's own dollar denominated credit lines and deposits. In the mid to late 1970's, increasing deficits coincided with an abundant supply of commercial credit at negative real interest rates. Between 1971 and 1979, public medium and long-term external debt nearly quadrupled from about US$540 million to US$2,100 million. Commercial debt (mostly bank loans, but some bonds and suppliers credits) rose from 53 percent to 75 percent of the total. After a marked slowdown in 1980 and 1981, total outstanding and disbursed debt surged ahead again in 1982. By the end of 1983, total medium and long-term obligations stood at US$3,048.1 million, 73.5 percent of the GDP. Commercial debt was US$2,130.6 million, 70 percent of the total. (See Graph 3.3.)

Graph 3.3

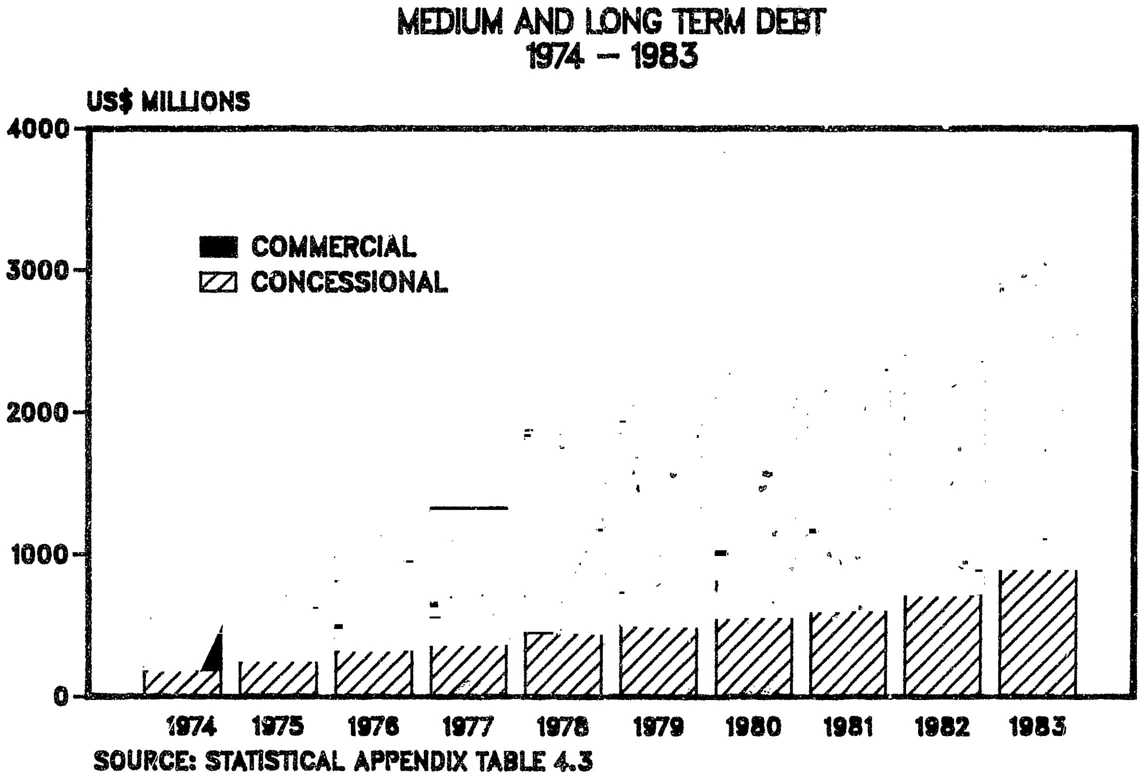

MEDIUM AND LONG TERM DEBT
1974 – 1983
US$ MILLIONS
4000
3000
2000
1000
0
COMMERCIAL
CONCESSIONAL
1974
1975
1976
1977
1978
1979
1980
1981
1982
1983
SOURCE: STATISTICAL APPENDIX TABLE 4.3

Table 3.23: EVOLUTION OF MEDIUM AND LONG-TERM DEBT (US$ million) a/

	1974	1979	1983
Total outstanding	538.6	2,062.8	2,956.1
Index	100.0	383.0	548.8
Commercial b/	285.0	1,556.1	2,130.6
Index	100.0	546.0	747.6
Percentage Commercial	52.9	75.4	72.1

a/ Excluding IMF, FIVEN and PEMEX credits to the National Bank of Panama.
b/ Excluding Eximbank, but including banks and suppliers credits.

Source: Statistical Appendix, Table 4.3.

3.57 Despite Panama's high dependence on commercial credit, reliance on commercial short-term debt 10/ has been minimal. Between 1981 and 1983, this averaged less than 5 percent of the total.

Table 3.24: SHORT-TERM PUBLIC DEBT OUTSTANDING

(millions of US$)

	1981	1982	1983 a/
Non-financial public sector	62.4	93.9	76.2
National Bank	78.2	60.9	60.0
Total	140.6	154.8	136.2
Percentage of total debt	5.2	4.8	3.8

a/ Preliminary.

Source: Statistical Appendix, Table 4.1.

3.58 The National Bank is the principal source of domestic financing for the non-financial public sector. It on-lends credits obtained principally from the following sources: (i) multilateral and bilateral official loans for which the National Bank is the executing agency; (ii) liabilities to the IMF through drawdowns of Standby tranches; (iii) deposits on concessionary terms from Venezuela and Mexico under the San José Accord on oil purchases; and (iv) credit lines from commercial banks.

10/ Defined as debt with a maturity of 12 months or less.

3.59 A ceiling on National Bank credit to the non-financial public sector is normally part of the annual Standby Arrangement with the IMF. Accordingly, increases in National Bank credit are often limited to those financed by (i), (ii) and (iii) above 11/

Table 3.25: EXTERNAL AND NATIONAL BANK FINANCING OF THE PUBLIC SECTOR DEFICIT, 1974-83 (US$ million)

Year	Deficit	Financed by External Borrowing (net)	National Bank (net)
1974	108.2	101.3	6.9
1975	202.8	196.8	6.0
1976	373.6	381.8	-8.2
1977	257.5	249.4	8.1
1978	377.2	378.8	-1.6
1979	330.6	336.0	-5.4
1980	184.1	187.1	-
1981	207.9	61.6	146.3 b/
1982	464.0	495.6	-31.6
1983 a/	247.7	131.8	115.9 b/

a/ Preliminary.
b/ The increases are due to public sector entities securing credit lines via the National Bank rather than directly.

Source: IMF

3.60 The burden of financing the external debt has increased sharply since the late 1970s. Interest on the total debt rose from US$131.4 million in 1978 to an estimated US$335.3 million in 1983, equivalent to 24 percent of

11/ Seasonally, ceilings are adjusted upwards to allow for crop financing etc. but the ceiling for the year as a whole is zero net increase in external commercial financing.

total public sector revenues 12/, 8 percent of GDP, and 35 percent of gross domestic savings. Total debt service rose over the same period from US$275 million to US$529 million, equivalent to 38 percent of public sector revenues.

3.61 By 1983, 72 percent of the medium and long-term debt was accounted for by the Central Government, up from 58 percent in 1975. From 1974 through 1982, the decentralized agencies and the public sector enterprises had independent access to international capital markets. The Central Government has been subsequently obliged to take over debts which these entities have been unable to service. Examples include the La Victoria Sugar Corporation, Citricos de Chiriqui, Air Panama and COFINA. In other cases, with the full knowledge of the Central Government, entities secured commercial credits for projects with low or long term financial returns. In 1983, a Directorate of Public Credit was established in MIPPE charged with improving the control and coordination of public debt. With regard to medium and long-term debt, these new controls have so far worked well. However, some agencies have recently increased their short-term debt as a consequence, first, of reduced or eliminated Central Government subsidies or of official pricing policies. An example is the Agricultural Marketing Institute, IMA, which increased its short-term liabilitites by nearly 100 percent in 1983 in order to finance its purchases, storage and loss-making sales of surplus rice.

3.62 By late 1982, it became clear that Panama would no longer have access to large amounts of commercial credit. Commercial bankers had become increasingly concerned about their sovereign risk exposure in Latin America, while Panama's own creditworthiness suffered from the major reversal of the public financial program in 1982. Consequently, in 1983, the authorities had considerable difficulty in negotiating a new credit to refinance the bulk of amortization obligations falling due in 1983 and 1984. In the end, however, mainly as a result of its 1983-84 stabilization and structural adjustment programs, the Government was able to obtain a refinancing with a voluntary credit of US$278 milion signed in September, 1983. The agreement between the Government and the commercial banks reflects equal concern about the economy's long-term prospects as about short term financial stability. This is an important departure from normal commercial agreements where conditionality is normally restricted to compliance with short-term stabilization plans. It is a welcome recognition that stabilization and medium-term structural adjustment are intimately linked and that neither can ultimately succeed without the other.

Debt Service Projections

3.63 The amounts projected for Panama's debt servicing are very substantial by historical standards. As the following table shows, Panama

12/ Given Panama's monetary structure, debt service ratios are more meaningfully expressed in relation to public sector revenues than to exports of goods and services. Public sector revenues are defined as the current revenues of the Central Government and decentralized agencies plus the current surplus of the public sector enterprises.

must confront commercial amortization obligations totalling nearly US$1.2 billion during the three years 1985-1987. This will occur at a time when there will likely be a net negative flow of funds corresponding to the special petroleum credits from Venezuela and Mexico 13/ and when the country will be repaying the substantial IMF drawings currently being made. The Government started negotiations with the commercial banks in the fall of 1984 with a view to refinancing amortization obligations due in 1985 and 1986. While the banks may agree to a substantial rescheduling of principal repayments, it would be imprudent to expect these negotiations to result in a significant increase in medium and long term exposure of commercial banks to the Panamanian public sector.

Table 3.26: PROJECTION OF PUBLIC EXTERNAL DEBT SERVICE, 1984-87 a/
(US$ Millions)

	1984	1985	1986	1987
Total debt service	668.8	802.1	958.6	978.6
Interest b/	393.6	404.0	369.7	304.4
Amortization	275.2	398.1	588.9	674.2
of which:				
Multilateral Loans c/	36.3	69.6	99.5	138.9
Bilateral loans	33.5	41.6	83.0	63.1
Sub-total official	69.8	111.2	182.5	202.0
Bonds	22.1	22.1	22.2	22.0
Suppliers credits	14.7	17.7	16.4	17.0
Commercial Banks	168.6	247.1	367.8	433.2
Sub-total commercial	205.4	286.9	406.4	472.2

a/ The projections reflect existing commitments of bilateral and multilateral agencies plus additional new financing to cover public sector deficits of 5.5 percent of GDP for 1984 and 4 percent thereafter.
b/ Based on an assumed LIBOR of 12.5 percent from 1985 onwards and a 10 percent interest rate on multilateral loans.
c/ Including IMF.

Source: Statistical Appendix, Table 4.4.

H. The Need for Continued Fiscal Discipline

3.64 In order to be able to meet the onerous burden of debt service obligations, and at the same time finance the minimum amount of public investment required to achieve its development goals, the Government must

13/ Despite a renewal of the San Jose Petroleum accord for one year from June 30, 1984 which will provide additional credits of about US$15 million in the first six months of 1985.

considerably improve its public savings performance. This is all the more so because of the likelihood of a heavy real interest rate burden on public debt for the rest of this decade. Between 1970 and 1983 public savings never exceeded 4 percent of GDP, while the proportion of public investment financed from public savings varied greatly.

Table 3.27: PUBLIC SAVINGS FINANCING OF PUBLIC INVESTMENT, 1971-83

Year	Percent of Public Investment Financed by Public Savings
1971-75 annual average	32.4
1976-79 annual average	1.2
1980	37.5
1981	42.1
1982	10.6
1983	35.0

3.65 From 1985 onwards, these percentages must increase substantially, given that further commercial credit will continue to be scarce and that a considerable proportion of non-commercial loans will have to be used to meet amortization obligations to bilateral and multilateral agencies. Total non-commercial amortization obligations will increase from US$69.8 million in 1984 to B/.111.2 million in 1985 and again to B/.182.5 million in 1986 14/. Even new inflows from these sources, considerably larger than the historical pattern, would not therefore negate the need for a much stronger sustained savings performance.

3.66 Without important changes, particularly on the expenditure side, the prospects for achieving this are, at best, mixed. From the positive viewpoint, the coming-on-stream of the La Fortuna power plant will likely result in fuel savings of some B/.60 million per year. In addition, the share of profits corresponding to the Government's 40 percent stake in the Transisthmian Oil Pipeline Corporation, together with corporate taxes, could yield over US$50 million in additional annual revenue starting in 1985.

3.67 While the expected windfall from these assets should provide some financial relief to the Government, they will probably be offset to a considerable extent by increased current expenditures in areas such as low cost housing, health and make-work employment programs, as well as, eventually, increased social security obligations. Some of these

14/ Of the difference between 1984 and 1986, 25 percent is due to increased amortizations to IBRD and IDB, 31 percent to IMF repayments and 44 percent to amortizations of bilateral credits to Venezuela and Mexico granted under the San Jose petroleum accord.

expenditures will be unavoidable if social cohesion is to be maintained during a difficult period of economic adjustment. Moreover, the high tariffs charged for most public sector services are already a significant burden on the economy and a disincentive to private investment; financially sound ways must be found to reduce them. Studies should be urgently undertaken to determine the extent to which state monopolies, such as utilities and ports, can reduce their operating costs without prejudicing their financial health. The five year program of eliminating subsidies to decentralized agencies should be vigorously pursued; this means seeking economies in higher education, and reforms of agricultural pricing and credit policies which currently impose heavy financial burdens on these agencies.

3.68 In addition, it is recommended that extra revenue be sought through improved tax administration, especially in the Customs, where substantial sums are lost each year in the form of uncollected duties, and through the introduction of new taxes. The staff of the Customs Administration are poorly trained and their methods of operation are inadequate to cope with the complex problems of modern commerce. This slows down, and at times even prevents, the introduction of desirable reforms to tariff policy. The Government is receiving technical assistance from an IMF expert who has prepared detailed recommendations concerning: (i) changes in the method of payment of customs duties to impede false declarations of value: (ii) the introduction of the Brussels Nomenclature (for which a detailed study has already been prepared) following a period of intensive training for Customs staff; (iii) a change from specific to ad valorem tariffs and (iv) a change from FOB to CIF as the basis for the assessment of tariffs. The Government has stated its intention to begin implementing these reforms at the beginning of 1985. Some of them require the approval of the legislature, which the Authorities were unable to secure during the preelectoral period. They should now be treated as a matter of urgency in order to reap the fiscal benefits of the new trade policy 15/.

3.69 The existing tax burden on the economy, at about 22 percent of GDP (including Social Security taxes), is already high by Latin American standards; introducing new taxes carries the danger of stifling private sector recovery. Savings must be sought by cutting public sector current expenditures if fiscal discipline is to be combined with economic buoyance. In the short term, however, financial necessity may dictate new revenue measures. In this case, the value added tax could be extended to certain service activities, yielding net extra revenues equivalent to some 1.5 percent of GDP. Alternatively, if the State can accelerate divestiture of some further assets in accordance with the overall aims of the structural adjustment program, the extra income may thereby render new tax measures unnecessary.

15/ Which involves a shift from quantitative restrictions to protection via tariffs.

IV. AGRICULTURE AND AGROINDUSTRIAL POLICY[1/]

A. Overview of the Agricultural Sector

4.1 After the agricultural sector had grown by 5.3 percent per year during the 1960's, its average rate of increase from 1970 onwards fell to 1.9 percent. In 1983, real per capita agricultural output was 10 percent less than in 1970. This contrast in performance reflects sharply different development strategies and policy frameworks. Prior to 1970, the sector was subjected to relatively little state control. Moreover, growth was export-led with the most dynamic subsectors being bananas, beef and marine shrimp. Since 1970, the only agricultural export to increase significantly was sugar. Indeed sugar was responsible for 85 percent of the increase in the volume of crop production between 1970/72 and 1979/81. This was, however, achieved only through direct state intervention in sugar production at substantial financial and economic cost.

4.2 By the beginning of the 1980's, Panama remained a relatively inefficient producer of most of the crops grown for domestic consumption and of the one export crop --sugar-- which had significantly increased during the previous decade. The following table compares average yields in Panama with those of other areas. It can be seen that in all cases except sorghum Panama's yields are lower than the international average, and in all cases except potatoes less than the South America average. These results reflect the poor quality of most Panama's soils as well as inappropriate agricultural policies which have concentrated in areas which do not coincide with the country's comparative advantage.

1/ The aim of this chapter is to examine the effects of policy on the agricultural and agroindustrial sector. It does not enter into details of physical production such as land use patterns, yields and agronomic potential, all of which have been amply covered in previous reports and studies. Rather, it concentrates on the institutional and other instruments of policy, particularly in the fields of pricing and marketing, and indicates how they must be changed to reorient the sector towards greater efficiency.

Graph 4.1

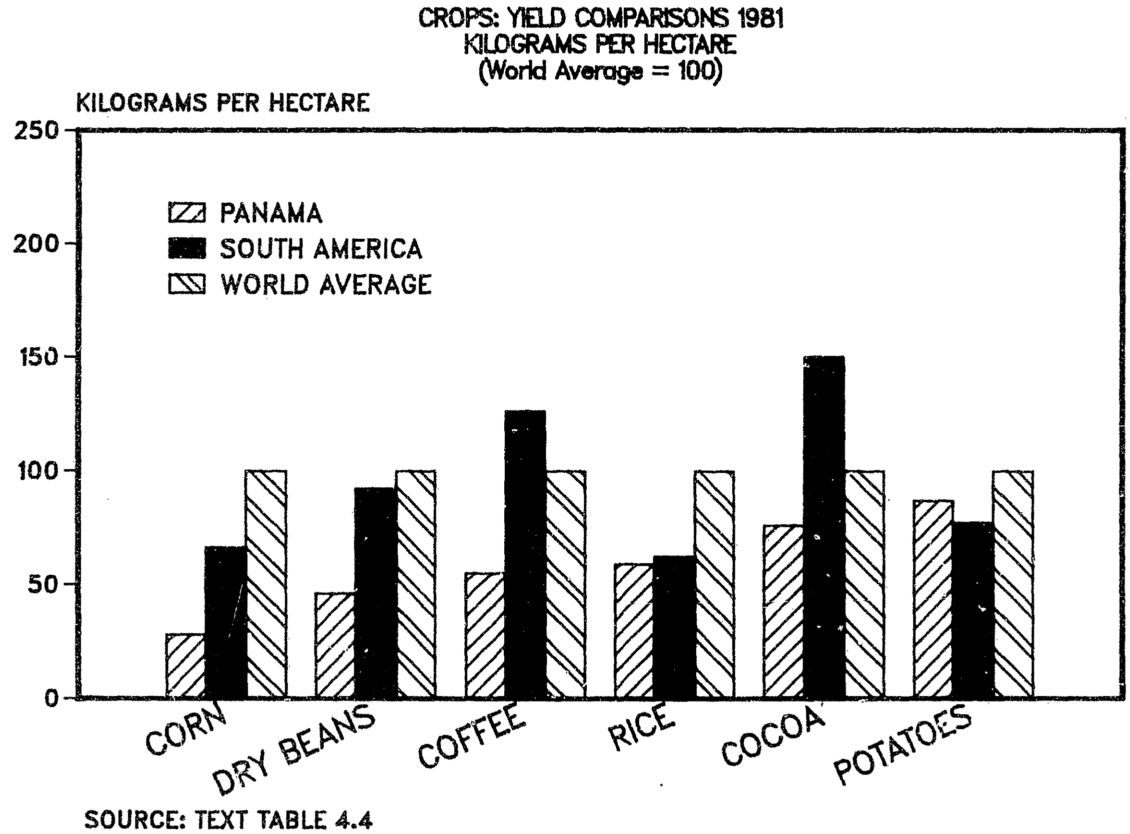

CROPS: YIELD COMPARISONS 1981
KILOGRAMS PER HECTARE
(World Average = 100)
KILOGRAMS PER HECTARE
250
200
150
100
50
0
PANAMA
SOUTH AMERICA
WORLD AVERAGE
CORN
DRY BEANS
COFFEE
RICE
COCOA
POTATOES
SOURCE: TEXT TABLE 4.4

Table 4.1: YIELD COMPARISONS FOR SELECTED CROPS, 1981
(kg/ha)

Crops	Panama	South America	North America	International Average
Rice	1,694	1,782	5,462	2,855
Corn	927	2,212	6,863	3,370
Dry Beans	260	520	1,611	567
Sorghum	2,445	3,192	4,025	1,507
Sugar Cane	49,800	57,230	88,802	56,102
Potato	12,517	11,116	29,166	14,387
Cocoa	274	538	-	358

Sources: FAO Statistical Yearbook, Office of the Comptroller General and World Bank estimates.

4.3 Agriculture has also performed poorly as a provider of jobs. The rate of increase of total farmland in the 1970's averaged only 16,000 hectares per year, a quarter of the previous decade's increase. Most of this went into highly seasonal crops such as sugar cane or into non-labor intensive activities like grazing. At the same time, market-oriented cropping technology has become more capital intensive. As a result, agricultural employment has dropped from 158,000 in 1970 to 154,000 in 1982.

4.4 The limited growth of the 1970's occurred despite a massive injection of public resources. In the last half of the decade, when state spending in the sector was at its peak, net current outlays (including the losses of the agricultural public sector enterprises) averaged B/.38 million per year and public capital expenditures a further B/.45 million. This was 27.4 percent of the sector's annual value added throughout this period. The total number of public employees in the sector is nearly 7,600; five percent of the total agricultural labor force. The State pervades all aspects of sectoral activity. Factor and product prices are closely regulated, there is considerable intervention in marketing and the Government participates heavily in the provision of credit, the supply of inputs and machinery and in direct agricultural production.

4.5 The principal objective of this massive effort was initially social: the transfer of resources to the rural poor, especially the beneficiaries of the ambitious land reform which the Government undertook during 1969-73. Over 16 percent of Panama's farm land changed hands in 5 years. About 200 agrarian reform settlements (asentamientos) were formed on this land, and considerable government attention was paid to them. The lending of the state-owned agricultural bank was increased rapidly, and much of its lending went to asentamientos. New institutions were formed to assist in marketing their output. Even the traditional services of MIDA were channelled mainly towards their needs during the 1970s. Together with major state investments in three new sugar mills, a financially weak citrus establishment, and new enterprises in bananas, these actions resulted in many lost subsidies, unrecoverable loans, an inflexible price support system, and poorly managed state enterprises. An indirect and unquantifiable cost was the adverse effect on the previously buoyant private agricultural sector.

4.6 The economic strategy accompanying these social goals has aimed towards self-sufficiency in food production. At considerable economic and financial cost, this has been achieved in rice, poultry, potatoes, onions and tomato products. This contrasts with Panama's possibilities for expanding exports which lie principally in: (a) salt-water farm-bred shrimp for which production capacity could be quintupled within a very few years; (b) dual purpose, semi-intensive cattle raising in the central and western coastal plains and foothills; (c) small scale, labor intensive production of tropical export crops (e.g. coffee, cacao), and of some temperate zone vegetable and fruit crops in the upper altitudes; (d) equally small scale labor-intensive growing of selected vegetable and fruit crops with irrigation near the rivers of the central provinces; and (e) development of the country's considerable forestry potential. Movement toward this, or a similar output pattern, would also be socially desirable in that it would reduce the importance of crops with marked seasonality of employment, such as sugar cane.

4.7 The scope for futher import substitution is, moreover, limited. The import bill for agricultural products (excluding forestry) was only 7.2 percent of total imports between 1980 and 1982. Furthermore, 75 percent of agricultural imports consisted of cereals, fresh or processed fruit and vegetables, milk and milk products and meat products. Most of these items, such as wheat and most temperate climate fruits, cannot be produced in Panama. Others, such as pork and pork products, can be produced only at high cost. Self sufficiency in corn and beans, if possible at all, will depend critically on the introduction of new technology and improved, certified seeds; even then it will likely require high support prices. Government attempts to stimulate private sector interest in further agricultural and agroindustrial import substitution have met with little interest.

B. The Policy Framework

4.8 Far from recognizing these realities, the policy framework, embodied in the current Agricultural Incentives Law 2/, is geared explicitly toward further import substitution. According to the Law, all food imports are to be reduced by 20 percent below their 1982 levels by mid 1985 and progressively thereafter to no more than 10 percent of the value of national production by 1992. This is to be achieved through the imposition of quantitative restrictions by MIDA. Domestic production is to be encouraged by state intervention in determining factor and input prices, credit distribution and agricultural production. Price controls are to be

2/ This Law, after a delay of two years, was finally passed in November, 1982.

maintained and strengthened. Tax concessions, if implemented, would reduce incentives to use land more efficiently. These policies were to be executed by the formidable array of state institutions built up during the 1970's, covering every aspect of agricultural activity from inputs to credit, marketing and direct production.

4.9 The Government has recently declared a change of strategy. Its new agricultural policies aim to:

- orient the agricultural sector more toward production for export;

- separate policies aimed at improving the social welfare of the rural poor from production policies;

- reduce price controls and producer subsidies;

- revise the role of public institutions in agriculture to achieve these objectives;

- eliminate subsidies for state agricultural corporations; and

- increase productivity through more effective and selective research and technology transfer.

4.10 Since the Incentives Law is clearly contrary to this strategy, the Government is considering drastic modifications to it. The new draft legislation, which was approved by the Cabinet in late June, 1984, would abrogate those aspects of the existing Law which are incompatible with the new direction of economic policy. For example, instruments to achieve the goal of self sufficiency in all products the country is agronomically capable of producing, irrespective of economic cost, would be removed from the legal framework. Annual import substitution targets would also be eliminated. Price controls on agricultural equipment and inputs would be removed and interest rate subsidies for agricultural loans reduced.

4.11 Preparation of the draft legislation has been accompanied by a series of initial actions consistent with the direction of the Government's new program. In 1983 it closed the costly Felipillo sugar mill, part of the La Victoria complex; freed beef and higher grade coffee exports; freed the prices of potatoes and high grade coffee; reduced the support price for rice; and changed from import quotas to tariff protection for 25 important food commodities. While these are important measures, the new Government aims to accomplish more liberalization in the future in order to achieve the goals of its new agricultural policy. These cannot be reached while the State's presence remains so pervasive in the agricultural sector, influencing prices, marketing, credit and direct production. Frequently the burden of state interference, and related red tape, acts as an impediment to exports.

C. The Current Role of the State

Pricing Policies

4.12 Pricing policies have been used both to allocate resources and to redistribute income. Price controls are still maintained on important agricultural products consumed locally (except potatoes) and margins are, in effect, fixed by the State at each step of the marketing chain. Producer prices are set with the participation of the Ministry of Agricultural Development (MIDA) and the Agricultural Marketing Institute (IMA) as well as the Price Regulation Office (ORP). They are negotiated annually with the interested parties (except, of course, the consumer), and are based on production cost data estimated by MIDA. Production responses to price increases have been strong, suggesting that, properly used, pricing policy could be a powerful tool for achieving higher production and exports. Strong producer response has been particularly clear in the case of rice. Due to a combination of support prices twice as high as international levels, and cheap credit, rice output rose from 127,000 tons in 1970 to nearly 200,000 tons in 1982. By the late 1970's, self sufficiency had been achieved and by 1982, Panama had reached a surplus position. IMA has had to export some 10,000 tons at a substantial financial loss. Further large surpluses were harvested in 1983 and 1984.

4.13 An analysis, comparing producer prices in Panama with those in the US, using the latter as an approximation to world prices, obtained the following results.

Table 4.2: RATIO OF PANAMANIAN TO U.S. AGRICULTURAL PRICES a/

Product	1970-73	1975-78	1980-83
Tomatoes	5.89	5.53	9.04
Chicken	3.01	2.72	3.67
Potatoes	2.24	2.76	3.54
Sorghum	3.24	2.75	2.41
Corn	1.54	1.95	2.40
Eggs	1.39	1.27	1.84
Rice	0.71	1.05	1.33
Milk	1.39	1.22	1.14
Beef	0.53	0.61	0.64
Tobacco	0.61	0.60	0.78

a/ In both cases prices are in constant 1980 values deflated by each country's CPI. To mitigate the effects of annual variations, average prices over three year periods were used.

Source: University of Minnesota: Study of Agricultural Prices and Trade Policy in Panama.

4.14 With the exceptions of beef and tobacco, nearly all prices are substantially above those in the US and in most cases the differentials have widened since the early 1970's 3/. None of the crops is freely traded; the closest approximation to free trade is milk where the processing oligopoly supplements domestic supplies with large imports of powdered milk at world prices. The relatively low Panamanian beef price is explained by low cost, grass fed production of a relatively low-grade product, and by a consistent policy of ensuring supplies of cheap beef to the consumer through previous export restrictions and continuing price controls. After Argentina and Uruguay, Panama has the highest per capita beef consumption in Latin America. There is clearly a strong price disincentive against consuming other sources of animal protein, especially chicken which is nearly four times as expensive as in the US. This is a direct reflection of the high cost of feed, especially maize and sorghum, which make up 46 percent of the cost of raising a chicken in Panama. High prices also result from the lack of competitiveness within the poultry industry itself: 90 percent of the output is in the hands of three firms which also control most of the feed milling and mixing.

4.15 The following Table measures the degree of price incentives to produce different products relative to the incentive to produce rice 4/. Its objective is to illustrate the inconsistency inherent in current policy. To derive the indications in Table 4.3 the domestic/US price ratios for rice were divided by the ratios for the other products. Values of less than 1.00 indicate a greater relative price incentive than for rice and vice versa. If all incentives were uniform or close to it, all the values in the Table would be at or about 1.00. The high degree of variability in the actual indicators, both from period to period for the same product, and between products, is a reflection of the inconsistency which has prevailed over the years.

Table 4.3: DEGREES OF INCENTIVES ON SELECTED AGRICULTURAL PRODUCTS RELATIVE TO THOSE ON RICE

	1970-73	1975-78	1980-83	Mean
Rice	1.00	1.00	1.00	1.00
Corn	0.46	0.54	0.55	0.52
Sorghum	0.22	0.38	0.55	0.38
Potatoes	0.32	0.38	0.38	0.36
Tomatoes	0.12	0.19	0.15	0.15
Tobacco	1.16	1.75	1.71	1.54
Beef	1.34	1.72	2.08	1.71
Milk	0.51	0.86	1.17	0.85
Eggs	0.51	0.83	0.72	0.69
Chicken	0.24	0.39	0.36	0.33

Source: World Bank Estimates from Table 4.2

3/ Where border price data are available the differentials are even wider than in comparison with the US where farmers also receive price supports. The average ratios between Panamanian producer and border prices for four important commodities in 1982 were as follows:

Rice	1.68
Corn	2.44
Sorghum	2.57
Beef	0.32

4/ The choice of rice is arbitrary; any crop could be chosen to illustrate the argument.

4.16 The matrix of relative incentives is also inconsistent with Panama's comparative advantages. All products are strongly and increasingly favored over beef, despite the fact that it is the agricultural product in which the country's comparative advantage is greatest. Even rice, which Panama is able to produce with relative efficiency compared to other crops, is at a disadvantage against most products. There is also a growing relative disincentive for milk, which has not had a strong price incentive since 1970-73. By contrast, special preferences have been afforded to tomatoes, potatoes and poultry for which Panamanian conditions are less suited.

4.17 Neither have pricing policies acted efficiently as means of redistributing income to poorer groups. Again, rice may serve as an example. One of the original purposes of the rice support program was to create an economic base for the asentamientos. In recent years, many inefficient asentamientos have dropped out of rice production as credit was tightened and other subsidies withdrawn. Over 90 percent of commercial rice is now produced by medium sized or large farmers, many using mechanized methods. These relatively efficient producers are thus making exceptional profits from the current support price policy. With production costs of around B/.800 per hectare, the break even yield would be 60 cwt at the current support price, yet some commercial producers have yields on average of 100 cwt/hectare. Profits of about B/.600/hectare are therefore being made. Far from redistributing income to the rural poor, current pricing policy hence effectively subsidizes relatively efficient farmers. These producers use more mechanized techniques and farm larger areas; they are therefore also likely to be relatively wealthy.

4.18 The relationship between producer support prices and controlled retail prices is also inconsistent between products. Based on a comparison between Panamanian and US prices, products may be divided as follows:

(A) High Producer Price / High Retail Price	(B) High Producer Price / Low Retail Price	(C) Low Support Price / Low Retail Price
Tomatoes	Rice	Milk
Eggs	Corn Products	Beef
Chicken	Cooking Oils a/	Tobacco
Oranges & Tangarines	Beans	Coffee
Fruit Juices	Onions	Cocoa Products
Pork products	Sugar	Wheat Products a/

a/ Retail price only; these commodities are not currently produced in Panama and hence have no support price.

4.19 Products in category A are all much more expensive to the consumer than they would be under a free trade system, though only potatoes could be considered a staple item. Products in category B, except for cooking oils for which raw materials are currently imported, involve very low distribution costs achieved in most cases by reducing distribution margins to minimum sustainable levels. There is a danger that cooking oils may shift to category A if enforced use of crude palm oil as raw material, following establishment of a local extraction plant, forces up refining costs. The same may occur with onions if the Authorities proceed with plans for expensive drying and cold storage facilities to enable the market to be supplied with domestic production during the rainy season when onions cannot be harvested. Products in category C have artificially depressed prices with varying consequences for production incentives. In nearly all cases, investment in higher quality and productivity is discouraged. In the case of wheat products, low controlled prices encourage consumption in competition with rice, thereby contributing to the surplus stimulated by the high support price.

4.20 High fertilizer prices contribute to Panama's high agricultural costs. In particular, yields of grain crops are determined in considerable measure by the price of nitrogen relative to the price of the crop. In Panama, the main source of nitrogen is urea. Although the components for the mix are freely imported into Panama, the Panamanian farmer pays almost double the price paid by his American equivalent for pure nitrogen; moreover, the spread has been widening: in the U.S., the price of nitrogen to the farmer rose by 17 percent in real terms between 1973 and 1983, and in Panama by 34 percent. This is partly for technological reasons[5/], though even urea costs nearly 60 percent more in Panama than in the U.S. This reflects the high cost of internal transportation and high margins within an oligopolistic marketing and mixing structure.

4.21 The cost of nitrogen helps to determine the price of feed grains (mainly corn), a major component of livestock production costs. The figures in the following table show that the advantage to the farmer of higher producer prices in Panama is largely offset by the higher price of nitrogen. The figures are derived by dividing the crop price by the nitrogen price. The exceptions are potatoes, tomatoes and chicken meat.

5/ Urea's nitrogen content is only 46 percent. In the United States, the largest single source is anhydrous ammonia, which is 82 percent nitrogen; this is a gas and requires special equipment, normally included in the dealer price, for its application.

Table 4.4: CROP AND FERTILIZER PRICES IN PANAMA, 1982-83

Crop/Product	Pounds of Nitrogen Purchased with one cwt of crops		Pounds of Feed Purchased with one cwt of Livestock Products	
	U.S.	Panama	U.S.	Panama
Corn	33	33		
Sorghum	30	31 a/		
Rice	57	36		
Potatoes	34	49		
Tomatoes	22	77		
Tobacco	968	313		
Beef			1,169	392 a/
Milk			287	113
Eggs			1,234 b/	941 b/
Chickens			605	894

a/ 1980 figures.
b/ Pounds of feed per 100 dozen.

Source: University of Minnesota: Ibid

Marketing

4.22 The history of state intervention in the marketing of agricultural products, particularly grains, goes back to well before the 1968 revolution. The Authorities control the marketing of agricultural products through the state agency IMA. IMA was created in 1975 as a decentralized institution from the former marketing directorate of MIDA. The creation of IMA was therefore to streamline the state system rather than to correct inadequacies in private sector marketing. IMA is obliged to buy any surplus of specified crops at the ruling support price. These currently include rice, maize, sorghum, beans, onions, salt and coffee. IMA also administers a large modern abattoir, a chicken processing plant and the national marketing of hides and skins. It is the sole importer of maize, sorghum, beans, onions, potatoes and edible oils, either directly or by allocation to private traders, and it controls, together with the Office of Price Regulation, import quotas for alarge number of food products. Since 1975, however, the State has increased its intervention, through IMA, into meat processing, the marketing of hides and skins, perishable produce and supervision of municipal wholesale markets.

4.23 The presence of the State in agricultural marketing has coincided with a reluctance on the part of the private sector to invest in modern storage and distribution facilities. As IMA's own facilities were also inadequate, it contracted for the construction of a major network of grain elevators and warehouses in the main production areas. Although these facilities are partly financed by a USAID loan approved in 1975, they were only completed at the end of 1984. The large rice surplus of recent years therefore, not only exhausted the capacity of both public and private storage facilities, but was being stored in far less than optimal conditions.

4.24 IMA's financial position is severely compromised by the chronic rice surplus and losses from the purchase and storage of other domestic crops. Despite substantial profit margins from its import monopolies, IMA has sustained cash losses (before current transfers from Central Government) in every year since its foundation. The total accumulated loss up to the end of 1983 was B/.27 million. Over half this loss (B/.15.8 million) was incurred in the first four years (1976-79) when it purchased over 100,000 metric tons of rice. In the following three years, its financial position steadily improved, with annual losses of B/.3.7 million, B/.1.0 million and B/.0.8 million respectively. During this period only 50,000 metric tons of rice were purchased. Then, in 1982/83, the trend was reversed: in the year ending June, 1983, IMA was obliged to buy 63,000 metric tons of rice. The effect of this on the entities' finances began to be felt in 1983 when a cash loss of nearly B/.7 million was sustained. According to its budget, it should have realized a profit of about B/.1 million. Since IMA's only significant sources of income to offset its losses from rice and other domestic crops are margins on the imported products it controls, it has a vital institutional stake in preventing the adoption of a freer trade regime.

4.25 As of June 30, 1984 IMA's accumulated rice stocks amounted to some 30,000 tons. A further 45,000 tons were stored in private depots, making a total of 75,000 tons, 40 percent of Panama's total yearly output. IMA's storage costs amount to B/.7.40 per ton per month. To ease the constraint on storage space and to meet periodic cash shortages, some 6,500 tons of rice were exported between May, 1983 and February, 1984 at an average loss of B/.175 per ton. Because many current storage facilities are inappropriate for bulk rice, an unknown but significant proportion of IMA's stocks has been destroyed by pests and spoilage. In the latter half of 1984, stocks were substantially reduced through sales, at below cost, to local chicken rearers.

4.26 In previous years, the Institute's losses have been met by transfers from Central Government. Since early 1983, however, these transfers have not been forthcoming in sufficient amounts and IMA has therefore resorted to short term borrowing from commercial banks. Outstanding short term debts doubled to over B/.18 million during the 12 months ending September 30, 1983. About three quarters of this was owed to commercial banks. Nearly half the value of the "assets" which IMA has to set against these liabilities consist of crop inventories, mostly rice, valued at purchase price. A further 35 percent consists of credits to producers. IMA's financial situation is, in short, unsustainable and will require

Central Government intervention to service the debt and meet the rice related losses. In the medium term IMA's problems can only be solved through fundamental reforms in the whole marketing system. The Government is now undertaking institutional and marketing studies to consider a variety of such reforms.

4.27 A further unfortunate consequence of the State's current role in agricultural marketing is the series of bureaucratic obstacles which must be overcome in order to export agricultural and some agroindustrial products. An exporter must obtain:

- A Certificate of Origin from the Chamber of Commerce. This in turn requires the presentation of a commercial invoice, a legal "Declaration of Exportation", and a formal request to export directed to the Ministry of Finance on sealed legal paper;

- An export authorization from IMA. This requires the submission of the Certificate of Origin, with its supporting documentation, and a formal request to the Director of IMA on sealed legal paper. A study will then be carried out of local market conditions, and if it can be proved that there is an excess over requirements, IMA will, in principle, authorize the export. Before the necessary signature can be obtained, however, IMA must stamp the Declaration of Exportation and register the data contained therein in its archives. These procedures can be greatly simplified if IMA itself carries out the exporting;

- another authorization from the Price Regulation Office. Here there are two categories of products: those with and those without export quota restrictions6/. For the former, separate authorizations are required from two departments: the General Administration and the Quota Department. The Quota Department determines whether the proposed export is within the quota ceiling; in order to do this it requires the exporter to maintain detailed files on national production, sales and stocks. The approval of the Quota Department is waived for products which are not on the controlled export list;

- a Sanitary Certificate (animal or vegetable depending on the case) issued by the Ministry of Health for which there must be a written request detailing description of the product and in some cases attaching samples;

6/ As of June 30, 1984 the following products were subjected to export quotas: fishmeal, fishoil, condensed and evaported milk, leather, hides and skins, sugar, sardines, mayonnaise, coffee, mustard and tomato products; in sum, virtually all Panama's exports except bananas, beef, and shrimp.

- also from the Ministry of Health, a Certificate of Free Sale of the product for which a separate written request must be made. After being approved and signed by the Ministry's technical functionary, this must be countersigned by the Vice Minister of Health; it is then taken by the exporter for authentication by the Ministry of External Relations before being given back to the exporter for his use;

- in the case of certain products, special additional authorization from the state institution concerned; for example, exports of forestry products must be authorized by the National Forestry Agency and fish products by the Marine Resources Department of the Ministry of Commerce and Industry; and

- Customs authorization: this is the final step and granted once the Customs are satisfied that all the above documentation is in order.

4.28 Not surprisingly, this complicated and costly procedure severely discourages private, export-oriented investment in agriculture and agroindustry. In practice, of course, methods are found by experienced entrepreneurs to reduce the time and effort required to obtain the necessary authorizations. To a potential new investor, however, they appear formidable; moreover, the methods used to overcome them may not appear practical or desirable to all foreign investors. The mission was informed by the National Investment Council of several specific cases of potential investors in agroindustry who had been apparently discouraged by bureaucratic obstacles. The Government has formed an inter-institutional commission to examine ways of simplifying and centralizing both export and import procedures for food products.

Credit

4.29 The influence of the State in the provision of agricultural credit is felt in two ways: through the operations of the public sector development banks and through interest rate subsidies. The two principal instruments of development finance in the sector are the Agricultural Development Bank (BDA) and the National Bank of Panama (BNP). BNP operates as a commercial bank lending on commercial terms. It also has a Technical Unit in its Agricultural Development Department which is responsible for on-lending funds from international development agencies. These loans have fixed terms and interest rates. The Technical Unit works reasonably well. Payment and collection records are good and most of its loans are adequately evaluated.

4.30 BDA was established in 1973, as a continuation of the Economic Development Institute. Its principal objectives are to provide crop finance, development credit and technical assistance to small- and medium-sized farmers and organized farmer groups (asentamientos and cooperatives). It has until recently required a substantial operating subsidy and had, by the end of 1982, received over B/. 31 million in capital contributions from the Government. These contributions were made during the course of several attempts to restructure the bank's portfolio. It remains, however, characterized by substantial interest arrears, and a high proportion of the portfolio (about 26 percent at the end of 1982) consists of loans either in default (about 11 percent) or rolled over to avoid being declared in default. About 90 percent of BDA's loans range from a few hundred to a few thousand Balboas. Larger loans for longer terms are made only for livestock (normally up to B/.30,000 and up to 12 years maturity). Interest rates have for some time been positive in real terms and varied between 9 and 11 percent in late 1984.

4.31 BDA is of considerable importance to the agricultural sector. The bank's share of total credit to the agricultural sector was 23 percent in 1982, and in crop finance (excluding bananas and sugar) over 50 percent. The number of loans granted to farmers by BDA exceeds that of the rest of the banking sector combined. The bank is used extensively by MIDA in the pursuit of planning objectives by directing financial resources into what the Ministry considers priority crops. A considerable proportion of its credit was also directed, in the mid to late 1970's, towards asentamientos and in providing working capital to other state enterprises in the agricultural sector.

4.32 During 1983, another conscious, but only partially successful, effort was made to improve both the operational efficiency and portfolio of the BDA. During the 12 months ending June 30, 1983, loan recoveries increased by 25 percent, about 90 percent of new crop loans were tied to crop insurance 7/ and operating costs were reduced by automation and closure of some branches. Nevertheless, operating costs, at 6.7 percent of productive assets, remain very high according to commercial criteria. Moreover, the recent reform effort does not appear to have survived a change of management which took place in early 1984 involving the resignation of the General Manager who instigated it.

4.33 While most interest rates in Panama are determined by the market, reflecting the openness of the financial sector, the Authorities have intervened, with limited success, in the determination of domestic interest rates with a view to influencing the sectoral allocation of financial resources. On the lending side, special legislation, of July 1980, established an interest subsidy scheme for agricultural loans. The scheme is financed from the "Special Fund for Interest Compensation" which is fed by a levy of up to one percentage point on local commercial and personal loans; up to the end of 1983 the levy was in fact half a percentage point. The preferential rate for agricultural loans is fixed periodically by the

7/ Provided through the state-owned crop insurance agency, ISA.

National Banking Commission. It was originally set at three points below the domestic market reference rate (which is automatically varied to follow movements in LIBOR); it reached seven points in 1981 during the period of high international market rates before dropping back again to three points where it currently stands. Although the scheme decreases the relative cost of agricultural credit, it seems to have had little or no practical impact on the sectoral distribution for credit. During the three years before the scheme's introduction, some 7 percent of total domestic credit was directed to agriculture; in the three following years this percentage fell to 5.5 percent. Similarly, between 1976 and 1979 domestic credit to agriculture increased at an annual nominal rate of 9.5 percent; since 1980 this fell to 8.8 percent. Cheaper credit does not therefore appear to compensate for the relatively high risks associated with agricultural investment, especially in the context of inappropriate trade and pricing policies.

4.34 Undeterred by the evidently limited impact of interest rate subsidies on credit demand or agricultural output, the Authorities sought to increase these through the Agricultural Incentives Law of November, 1982. This provides for a further two percent subsidy financed through a special B/.20 million fund called FINDES administered by the BDA. FINDES in turn is to be financed through periodic bond issues by the BDA, on which no more than 5 percent is to be paid; from Mexican and Venezuelan oil price rebates under the San Jose Accord; by tax deductible private donations; and by loans from international organizations. The latter clause would ensure that concessionary loans by official aid agencies are passed on to loan recipients 8/. This part of the Incentives Law has not yet been implemented, and would be abrogated by the draft Bill revising the entire Law. Its implementation would lead to further serious erosion of BDA's lending base and would introduce yet more distortions into an area of the credit market which already suffers from unnecessary and distortionary state intervention.

Direct State Production

4.35 During the 1970's, the Government became increasingly involved in direct production. This was done with the twin objectives of creating employment in poor rural areas and establishing development centers ("Polos de Desarrollo") to stem the tide of rural/urban migration. This policy had limited success but a high financial cost, the legacy of which is still a heavy fiscal burden. In the agricultural sector, the most important state enterprises are the Bayano Development Corporation, the Chiriqui Citrus Company and the La Victoria Sugar Corporation.

4.36 The Bayano Development Corporation(BDC) was created in 1975 to protect the watershed of the Bayano hydroelectric reservoir and to start a capital intensive state farm producing mostly rice, cattle and timber. BDC has required operating subsidies in each year; its capital cost per direct

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8/ The InterAmerican Development Bank and USAID are the BDA's chief sources of funds.

job created is over B/.100,000; and it has failed to achieve adequate yields or efficient production methods with the partial exception of the sawmills. Its financial record has also been impaired by the provision of free medical and education facilities, constructed and operated for the BDC employees, but utilized by several hundred families from the surrounding area. Operating losses, before depreciation and interest, have averaged about B/.1 million in each year of the Corporation's existence. This is met by direct subsidy from the Central Government. In 1983, the Government stated that the subsidy would be eliminated. It is not yet known if this has been achieved.

4.37 The Chiriqui Citrus Company, which consisted originally of a privately owned 5,000 ha. plantation and concentrate plant, was taken over by the Government in 1975 after being abandoned as a chronic loss maker. In late 1983, the Authorities paid about US$6 million in compensation to the original owner, a sum never capitalized in the accounts of the enterprise itself. Plantation size was reduced to about 2,000 ha in 1978. Initially heavy operating losses were incurred, but recently the enterprise has been operating at a small profit (without taking into account the debt to the original owners). Yields are, however, low and costs are high. Only 80 percent of the trees are currently producing and the average yield in 1983 was 1.25 boxes (90 lbs) per tree; a good yield would be 6 boxes. The plant's principal product is orange juice concentrate of which it produces about 140,000 gallons per year. It operates at about 35 percent of capacity. This gross underutilization and high raw material costs, due to low yields, lead to high production costs. Direct production costs for orange juice concentrate in 1982 were B/.4.87 per gallon, plus a further B/.3.30 per gallon for marketing, administrative and other indirect costs. These high costs, which compare with about US$6 per gallon in Florida, can only be sustained in a protected domestic market. Thanks to temporarily high international prices, the plant is, nevertheless, able to export: some 80,000 gallons were sold to Costa Rica in 1983,, while in 1984 the company planned to penetrate the US market. There are plans for expanding orange production with a view to increasing plant utilization. Although Citricos has declared its intention to eventually export most of its increased output, juice and container filling equipment is already being installed with a view to increasing domestic sales. The entity's intentions to sell orange juice directly to consumers in tetrapak containers will involve it in competition for a limited national market with its two principal private customers for orange juice concentrate.

4.38 Although Citricos has been run as a state enterprise, it had always been the Government's intention to turn it into a cooperative. Lately, as it became clear that the management problems are too great for a workers' cooperative to handle, the Government is considering bringing in foreign capital and management for a mixed enterprise with the workers' cooperative, which is already functioning as a provider of the firm's labor and owner and administrator of the social infrastructure and services, such as the cafeteria and gasoline pump. Management asserts that expressions of interest have been received from 10 firms, including three large food multinationals.

4.39 The La Victoria Sugar Corporation was started in the early 1970's with the objective of making sugar a leading export and expanding employment in poorer rural areas. While the original plans were for one mill, the high world sugar prices of 1974/75, which were projected to continue, led to plans for four more. One was subsequently cancelled, due to falling world prices and high costs at La Victoria, the original mill. Capacity by 1983 was at 20,150 tons of cane per day, divided as follows:

Mill Name	Location	Daily Capacity (tons)
La Victoria	Santiago, Veraguas	6,250
Felipillo	Pacora, Panama	5,500
Alanje	Alanje, Chiriqui	7,200
Azuero	Pese, Herrera	1,200
		20,150

4.40 The Corporation continued to make heavy losses which by 1983 had exceeded an accumulated B/.200 million. In March, 1983, the Government closed down Felipillo, the least efficient mill, where total production costs 9/ for the 1982/83 harvest were 43 cents/lb compared to an average FOB export price of about 16 cents. Despite its having ceased operations, Felipillo, which has a book value of B/.38.4 million 10/, is still a considerable part of the Corporation's debt burden; moreover, most of the employees have not been laid off.

4.41 Key statistics for the 1982/83 harvest are found in Table 4.5.

4.42 Final figures relating to the 1983/84 harvest are not yet available; reportedly, however, plant utilization at the La Victoria and Alanje mills has been increased following the closure of Felipillo, resulting in unit cost reductions of around 20 percent. Since average prices have remained about the same as in 1982/83, La Victoria, the most efficient mill, is near the financial breakeven point.

9/ Including depreciation, interest and the mill's share of central office administration costs.

10/ Excluding land and construction in progress.

Table 4.5: LA VICTORIA SUGAR COMPANY: 1982-83 OPERATIONS

	La Victoria	Felipillo a/	Alanje	Azuero	Total
Cane processed (short tons)	367,912	143,746	454,891	83,260	1,079,809
Sugar produced (short tons)	38,195	15,960	38,534	7,549	100,238
Exports (short tons)	-	-	-	-	53,865
Average export price (cents/lb)	-	-	-	-	15.67
Domestic sales (short tons)	-	-	-	-	13,669
Average domestic price (cents/lb)	-	-	-	-	17.79
Total average sales price (cents/lb)	-	-	-	-	16.10
Production cost (cents/lb)	20.63	42.60	24.04	37.41	26.70
Loss per lb produced	4.53	26.50	7.94	21.31	10.60

a/ Felipillo was closed in March, 1983 after about half of the cane had been harvested and processed.

Source: La Victoria Sugar Corporation.

4.43 The Corporation's losses should be seen in the context of price and marketing policy for the whole industry. In the domestic market, refined sugar is sold ex-mill for 29.3 cents/lb. In the export market, about 81,000 [11/] short tons are sold to the US under a special quota arrangement at about 21 cents/lb crude C.I.F. (the export price F.O.B. Panama is about 17 cents/lb). Panama currently has 2.9 percent of the US annual sugar import quota. There is a formal allocation of 87 percent of the domestic market and 25.5 percent of the US quota market to the two private sugar mills which between them produce about 86,000 short tons (almost half the country's total output). Thus, only about 9 percent of the private mills' output has to be sold at world market prices (4 cents/lb crude in late 1984), while the corresponding proportion for the Corporation is nearly 25 percent. Moreover, the Corporation does not sell refined sugar domestically; the price it receives for its crude sugar is 11.5 cents/lb less than the ex-mill price of the private companies' refined products. Costs at the private mills reportedly total about 16 cents/lb, roughly the same as reported current

11/ In 1985, the quota will be reduced by some 17 percent.

costs at the original La Victoria mill. There is therefore a strong element of subsidy of the private by the public sugar industry through this market structure.

4.44 The Corporation's mills, moreover, sustain heavy social costs for education, health and similar facilities. They are also overstaffed. La Victoria, Alanje and Azuero provide, between them, permanent jobs for 1,300 workers and seasonal employment for 8,500 more. In the areas concerned, it would be very difficult to find alternative employment. The Corporation's bloated central office in Panama City costs about B/.2.2 million per year, equivalent to over one cent/lb of crude sugar.

4.45 In order to improve the Corporation's financial situation, a number of immediate options are available to the Government, short of wholesale closure or sale of its assets at deflated prices to the private sector. These include:

- Sale of the idle equipment at Felipillo;

- Closure of the chronically inefficient Azuero mill and transfer of its cane, if economical, to La Victoria (Santiago);

- Sale of the Felipillo lands to the private sector with freedom to cultivate what the owner wishes;

- Sale of the properties in Cocle, bought by the Corporation in anticipation of the construction of a fifth mill;

- Closure of the central office in Panama City, or its restructuring in accordance with minimum requirements; and

- Reduction of the permanent labor force in Alanje and La Victoria to more normal levels for the sugar industry.

Inputs and Technical Assistance

4.46 The Government intervenes in the provision of agricultural inputs and technical assistance through a variety of institutions, nearly all of which present problems of varying severity. The National Seed Corporation (ENASEM) contracts for the production of selected seeds from private growers which it resells to farmers at a small margin. Although it has only 15 percent of the market, ENASEM maintains that it plays a price setting role; prices of locally produced seeds have certainly increased much more slowly than those of imported hybrids where ENASEM has not intervened in the market. Financed by an IDB loan, ENASEM is to be considerably expanded; its goal is to market 56 percent of Panama's certified seed requirements by 1989. Given the existence of actual and potential private suppliers, the desirability of such market dominance by a state institution seems questionable. There may well be cheaper ways of achieving lower seed prices than through the creation or expansion of direct official intervention.

4.47 Farm machinery hire and repair services, crop insurance, and agricultural research services are provided respectively by the Machinery Pool (ENDEMA), the Crop Insurance Agency (ISA) and the Agricultural Research Institute (IDIAP). Until recently much of these institutions' efforts were directed towards assisting the asentamientos, leaving other farmers to private enterprise. ENDEMA operates inefficiently and state subsidies are heavy. Moreover, the entity is impeded from fulfilling its originally intended function of providing smaller producers with access to agricultural equipment by technical and financial shortcomings. The Government announced, in November 1984, the imminent closure of ENDEMA. ISA and IDIAP have substantially rationalized their operations and methods. These organizations are no longer serious fiscal burdens, nor are they institutionally part of MIDA as was once the case. They might be considered for sale to the private sector. In the specific case of IDIAP, institutional stengthening is required to increase practical research capabilities more geared to farmer's needs. There is also a requirement for much closer coordination of research activity with the extension services provided in MIDA.

4.48 Recent institutional changes have also been made in MIDA itself with a view to improving and widening its extension services. Previously, these were directed almost exclusively towards the asentamientos and were combined with the provision of other subsidized services. In February 1984 MIDA was reorganized; regional offices have been converted into "executive directorates"; each responsible for managing field service agencies. These agencies, described by the Minister of Agriculture as "the most important units of the new service-oriented MIDA" are to provide extension services to all farmers who wish them. The agencies and executive directorates are integrated into a new vertical chain of command designed to streamline implementation of ministerial decisions. While the significance of these welcome institutional improvements should not be underestimated, more time will be required for them to take effect. The Ministry remains very short of trained extension agents. However, the new organization should stimulate a considerable increase in field visits and experience of MIDA officers, which in itself is a substantial improvement.

D. Potential for Exports and Import Substitutes

4.49 Rather than treating agricultural products under the commonly used categories of "traditional" and "new", it is more meaningful to classify them according to their degree of potential growth from an overall market point of view, considering both supply and demand. A product may have a high supply potential in Panama, but a low absorptive potential in foreign markets, and vice versa. The first category of products considered are those currently exported or which have export potential. They are bananas, coffee, sugar, shrimp, cocoa, beef and fresh fruits and vegetables. A discussion follows of the principal import substitution crops in Panama: rice, feedgrains, tomatoes and tomato products, potatoes, onions, vegetable oils and milk. For both categories, a set of specific policy recommendations is provided.

Export Products

4.50 Panama's highest value agricultural and agro-industrial exports are bananas, seafood, sugar and coffee. With the exception of seafood, all have relatively low growth potential. Low international prices for bananas have resulted from a world market surplus, fueled primarily by massive acreage increases in Ecuador and Colombia. The major banana firms, in an effort to reduce the surplus, have recommended cutbacks in contracts with independent farmers. This caused labor difficulties in the Panamanian plantations. There is land available with good potential for bananas on the Atlantic Coast which would improve the country's competitiveness in European markets by avoiding Canal transit. However, world market conditions would need to improve substantially before developing this land.

4.51 Production of an exportable surplus of coffee has fluctuated considerably since the mid 1970's. On average, since 1976, Panama has exported 13 percent less than its International Coffee Organization export quota of 4,000 metric tons. However, in recent years the exportable surplus has risen and the Government is trying to negotiate an increase in its quota. This effort is hampered by bureaucratic impediments and controls, designed to reduce smuggling, 12/ but which lead to defaults on export contracts and loss of reserve space on ships. Potential for this crop is also limited by lack of suitable land.

4.52 Studies have demonstrated that, for climate and soil reasons, Panama's comparative advantage in sugar is limited. Moreover, the outlook for world prices is poor. There should be no thought of increasing production of this crop; rather, efforts should be concentrated on rationalizing the industry and reducing public sector losses. To achieve this, the Government may wish to carry out not only the recommended institutional reforms to the La Victoria Corporation but also move towards a freer market system. At the same time, prices could be adjusted downwards to encourage only sufficient production for the domestic market and the US quota. Such action would relieve the Panamanian consumer/taxpayer of the double sacrifice of paying twice the free international price for sugar and in effect paying for a resource transfer from the public to the private mills (para. 4.45). It would lead to healthy competition among the three corporations (one public and two private), for the domestic and foreign markets and would have a beneficial impact on industries which use sugar as an input. Manufacturers at present pay 28.6¢ lb., making it very difficult for them to compete internationally.

4.53 Exports of seafood, especially shrimp from salt water farms, have a considerable potential. There are currently 2,300 ha in production, but Panama's full potential, on the Pacific coast alone, is about 13,000 ha. To realize this, the Government should: (i) streamline the procedures for processing and supervising concessions for the salt marsh areas; (ii) review all concessions granted to date for compliance with the Law and take speedy

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12/ The movement of coffee beans from the growing areas in Chiriqui to the roasters' plants in Panama City requires six separate permits from different official agencies.

action where they are being held for speculative purposes; (iii) raise the rental fees for concessions sufficiently to discourage speculation but not so high as to impede the industry's rapid development; (iv) encourage foreign investment in establishing commercial breeding suppliers to overcome the shortage of post-larvae; (v) encourage an agreement whereby the only producer of non-soluble feeding pellets shares his technology with the rest of the industry; and (vi) encourage size grading of shrimp for export by all producers, in order to secure a higher price, while taking care not to discriminate against the interests of smaller producers.

4.54 Three other products which show considerable potential, but which are currently exported in only small quantities, are cocoa, beef, and fruits and vegetables.

4.55 Production of cocoa has declined rather than expanded in recent years, despite the existence since 1981 of a processing plant with a capacity seven times the national bean output of 350 tons per year. The plant exports most of its production in the form of cocoa butter and powder. Pricing arrangements for the raw material, based on international quotations, work well. The principal constraints to development concern raw material production. Most could probably be overcome by switching from the current system of small farmer production to organization in the form of plantations and outgrowers. However, in view of the difficulties encountered by other plantation crops in Panama, especially in terms of labor relations, it is recommended that suitably qualified consultants be contracted to assess alternatives for production organization under Panamanian conditions.

4.56 Although grass fed beef production is where Panama's greatest comparative advantage lies in agriculture, misguided price and marketing policies have stunted growth for several decades. Domestic prices have been controlled at well below world levels in most years and exports have been subject to quota restrictions. Panama has never filled its US import quota. A number of other factors erode the profitability of modern slaughter houses: high utility costs; competition from small-scale intermediaries ("matarifes") who have very low fixed costs; and market regulation of by-products, particularly hides.

4.57 In order to develop a dynamic, efficient and export-oriented beef industry, a number of measures are urgently required. First, price controls on live cattle and on all beef cuts could be removed. This is opportune while there is now an excess supply. Second, the authorities should widely disseminate a declaration that export restrictions on beef will not be reimposed, thus giving cattle ranchers and modern meat packers at least a verbal guarantee that their investment in higher productivity and quality will not be penalized. Third, to provide the consumer with an alternative protein source, measures should be taken to cheapen poultry meat. Cheaper feed should be made available through liberalizing imports of corn and sorghum and encouragement given to potential new investors in poultry rearing.

4.58 Although, for climate and soil reasons, Panama's possibilities in fruit and vegetables (other than bananas) are limited, opportunities do exist. The most promising crops are melons and plantains. Plantains, of which 40,000 boxes, worth US$182,500, were exported to the US in 1982, are produced in Chiriqui, Bocas del Toro and the Darien. Exports in 1984 were, however, very low due to greater incidence of the Sigatoka Negra disease in Chiriqui. To encourage development of this crop, action should be taken to (i) teach small farmers to eradicate Sigatoka Negra through systematic spraying; (ii) encourage an agreement between the owners of Puerto Almirante port in Bocas del Toro province and local growers to permit exports of plantain through the port [13]; and (iii) sell the packing plants to private exporters or producers: the collection and packing of the fruit might be more expeditiously carried out by the private sector, or a producer cooperatives, than through IMA which currently manages the plants.

4.59 The country appears to have the appropriate agronomic conditions for growing melons for export into the US winter market. This is a high value market. Transport and labor costs can be offset as long as the operations are well managed. Because the produce is perishable, efficient coordination of the production-packing-transport system is critical. Lack of this in the past proved fatal to several initiatives. The Government could stimulate such export operations by ensuring that no bureaucratic interference impedes the critical coordinating function. Price intervention is unnecessary. Testing of varieties by IDIAP would help to ensure local adaptation and reduce risks to producers. Reportedly, Miami brokers have not given exporters fair returns, and the possibility of establishing an importing operation in Miami might be explored. A note of caution is in order regarding market prospects. The window for the winter market is narrow, thereby making this a highly seasonal activity. Furthermore, it is likely that the competition from Central American and Caribbean countries will increase and the strong presence of Mexico will continue.

4.60 Other nontraditional fresh produce exports that appear to have growth potential and deserve support in their initial stages include: okra, cassava, cucumbers, strawberries and eggplant. Some of these might be exported in a more processed form (e.g., frozen okra, cucumber in pickling brine). Spices and medicinal plants have been exported in small quantities but do not appear to hold large potential. Cut flowers from the Chiriqui area may have potential, but access to appropriate air transport remains a serious barrier.

4.61 Panama's potential in forestry has been the subject of several comprehensive studies in recent years. All of them point out the considerable scope for expanding exports of tropical hardwoods especially from the forest of the Darien. However, there is considerable danger that in the absence of rational exploitation, the rapid exhaustion of resources could bring substantial ecological damage in its wake. There is general recognition that the Government's National Renewable Resources Institute needs strengthening in order to more effectively plan and police the exploitation of forestry resources. Until this is done, unregulated exploitation will continue.

13/ At present, due to prohibition of the loading of plantains in Puerto Alminarte, plantains from Bocas del Toro have to be exported through the Costa Rican port of Puerto Limon, some 75 miles from the packing plant.

Import Substitution Crops

4.62 The Government's encouragement of import substitution has focussed principally upon rice, feedgrains, and horticultural products, particularly tomatoes, potatoes and onions. Self-sufficiency has been achieved in rice and most horticulture, though not in feedgrains. Currently, efforts are centered on attempting to substitute for imports of vegetable oils and milk, as well as developing seed varieties which will assist the drive to self-sufficiency in feedgrains.

4.63 In the case of rice, not only has self-sufficiency been reached, but a substantial surplus created. High support prices--currently double world levels--make this crop very profitable for relatively efficient growers who now supply the majority of marketed output. Despite the severe financial problems that this is creating for IMA (para.4.27) the Government remains reluctant to use the price mechanism to reduce output. A powerful pressure group has been formed by the more efficient growers who also own many of the mills. The mills frequently buy from other farmers at below the support price and then sell the milled rice at controlled prices which assume they have payed the support price to the farmer. The Authorities attempted to reduce the 1984/85 rice acreage by restricting credit and the amounts which IMA would buy. These restrictions had only a limited impact on output as yields increased on a reduced area. Most credit for rice is now supplied by commercial banks and the Authorities' influence over their lending is limited. Moreover, IMA was in the event unable to resist pressures to purchase surplus output. Such measures cannot substitute for an urgently required reduction in the support price to a level much nearer world prices. Even should this result in a deficit, the amount involved could be imported at less cost than the local rice. Such action would also release land and other resources for more economic alternatives, thereby mitigating the possible depressive effects of rice price reductions on land values.

4.64 In contrast to rice, high support prices for the basic feedgrains (maize and sorghum) have not reduced the import gap which, at 48,000 tons per year, is one third of consumption. This is imported by IMA which sells to the wholesaler at the equivalent of the domestic support prices. As the latter are 2½ times world levels, the profit margins associated with this operation are substantial. The failure to achieve self-sufficiency is attributed to the lack of well adapted seeds. It is anticipated that when these are finally developed,14/ production of sorghum and possibly also maize may be feasible at prices acceptably close to world levels. If not, then the poultry industry should be allowed to rely essentially on freely imported feed. This would enable it to offer the consumer a cheap alternative protein source to beef thereby reinforcing the recommended policy of liberating beef prices and exports.

14/ The Government anticipates that marketing of the new seeds could begin in 1986.

4.65 Twenty-five years ago, all tomatoes and tomato products consumed in Panama were imported. Today, Panamanians consume about 15 kg. of tomatoes per capita per year, all locally produced. This has been achieved through (for Panama) an unusually productive partnership between small farmers and a multi-national processing firm which supplies them with credit and technical assistance. Government protection enables the company to pay the farmers some four times the world price and still sell its products at a profit. Evidence indicates that productivity has risen and production costs now average less than half the officially regulated support price. Given that the latter rules out exports, and impedes the further expansion of the local market, there is a strong case for substantially lower producer and consumer prices.

4.66 As in the case of tomatoes, self-sufficiency in potatoes has been achieved through the efforts of small, market-oriented farmers. In March, 1983, potatoes became the first foodstuff to be completely freed from official price and supply controls. An import tariff of 68 cents/lb. (equivalent to 500 percent effective protection), has been imposed to protect local production. This is effectively controlled by two cooperatives, who have taken advantage of the protection offered by sharply increasing prices. In February 1984, potato wholesale prices were 165 percent higher than a year earlier; at 36 cents/lb. potatoes have become a luxury food. Although potatoes are not as important a staple as rice, recent events hardly make price deregulation popular among consumers. The problem could be easily solved by liberalizing imports from neighboring countries.

4.67 The price of onions is still controlled; the support price has risen by 50 percent since 1979, rather more than the rate of inflation. This has enabled local production to supply the domestic market except during part of the rainy season when onions cannot be harvested. The Authorities have expressed their intention to achieve full self-sufficiency through installing driers and enlarged cold storage facilities. This is, however, likely to be extremely costly; if the cost is passed on to the consumer, then onions also will become a luxury food and consumption will fall.

4.68 Following many unsuccessful attempts to produce domestic raw materials for edible oils, a palm oil production scheme was originated with World Bank support in 1979. The oil palms were planted and the first fruit harvested in 1984. No extractor plant has, however, been constructed and a temporary arrangement has been made to process fruit at a plant in Costa Rica. The crude oil is then returned for sale in Panama. The private sector has been reluctant to invest in a product for which it considers the supply of raw material to be potentially unreliable: the fruit is produced by cooperative farms in a politically sensitive area. Moreover, the two private refineries, which currently process imported crude soybean oil, believe that the heavier palm oil product may meet consumer resistance. Private sector participation may, therefore, require heavy protection; alternatively, the State may become involved in another likely loss making public enterprise which will run counter to the thrust of its economic policies. If a domestic plant can only operate with heavy protection, ways may be sought of making a permanent arrangement with the Costa Rican processing plant, and including the marketing of the crude palm oil outside as well as inside Panama. These and other alternatives are to be considered in an economic study of the processing plant scheduled to commence in March 1985.

4.69 It would appear, on the basis of present knowledge, that substantial additional milk production could result from appropriate pricing and marketing policies wihout significant sacrifice by the low income consumer. This would benefit many hundreds of small dual purpose (i.e. milk and beef) ranchers who rely on milk as a source of regular cash flow. The three principal constraints to greater milk output have traditionally been:

- the oligopolistic structure of the processing industry which prefers to reconstitute imported powdered milk because of reliability and cheapness of supply;

- poor returns to the farmer: the controlled farmgate price fell at an annual rate of 3 percent in real terms in the 20 years ending 1982.

- the absence of regulations and mechanisms establishing a grade of milk hygienically acceptable yet technically and financially feasible for the majority of producers.

4.70 The new grade "B" milk is an attempt to deal with the last of these constraints. 15/ It has yet to be marketed because the precertified producers are still to complete modifications required according to preliminary inspection, and because the monopoly pasteurizing firm is still negotiating processing and marketing margins with the Government. In addition to establishing this grade as quickly as possible, farmgate milk prices should be allowed to rise at least as fast as other consumer items. Commercial imports of dried milk should be free, but subject to a modest tariff which would make them marginally more expensive to the processor than the local milk equivalent. The existing oligopolistic structure of milk processing and distribution would likely rule out decontrol of wholesale and retail prices.

E. An Outline Strategy for Greater Efficiency

4.71 Five general guidelines are proposed to help the Government reorient its agricultural strategy towards a new period of growth. They deal with competitiveness, the roles of the public and private sector, pricing, and continuity. They are not panaceas, nor do they represent a "first best" solution. Rather they indicate the general direction which policy could follow, while taking account of Panama's resource, economic, political and social realities.

4.72 Ensure competitiveness. Efficiency of resource use implies that costs of Panamanian products, regardless of whether primarily for export or for domestic consumption, should approach internationally competitive prices. Adjusting support prices downward for those commodities that are priced substantially above their CIF price is one way to increase pressure on the agricultural economy's competitiveness because such high price levels tend to lead to inefficient resource use. Similarly, abolition of

15/ Previously, there were only two grades: "A", of relatively high quality milk and "Industrial".

government-fixed marketing and processing margins can lead to greater competitiveness as less efficient firms are forced to modernize or turn to other activities, while new firms may be encouraged to invest and thus increase competition.

4.73 Reduce the public sector's ongoing role to one of supporting functions where the private sector is efficient and there is adequate competition. Production of goods and services by a public sector agency in a market economy, where competitive conditions prevail, tends to become superfluous. Panama's experience has shown that it has often led to public spending and/or prevents the private sector from taking advantage of all possible economies of scale and markets; this, inter alia, also reduces the tax base.

4.74 In an ostensibly market-oriented economy like that of Panama, Government should resist regulating directly prices and supply. Rather, it should stimulate competition and investment by providing the essential physical and service infrastructure which the private sector is unable to provide. Prime examples include agricultural research and extension, where these functions cannot be effectively provided by the private sector, and price stabilization during seasonal market gluts. Such services can only be provided effectively by well-trained, experienced personnel.

4.75 Deregulate prices selectively. Most price controls and price supports in Panama's agricultural sector result in substantial interrelated market distortions that tend, in most cases to result in windfall profits for a few relatively efficient producers rather than benefitting consumers. Ceteris paribus, price controls can be justified only to mitigate the social effects of an actual or impending scarcity of a mass consumption good or when monopoly or oligopoly exist. Panama's open economy in principle guarantees that mass scarcities cannot arise if Government does not interfere with the market. In practice, however, oligopolistic market structures (examples include fertilizers, animal feeds and poultry) impede the effectiveness of the competitive process thereby strengthening the perceived need for price controls. Oligopolistic market power will likely be eroded following completion of the changeover from quota to tariff protection that is currently underway. To carry this process further may require reforms to the legislative framework for commercial practices aimed at creating more competitive conditions. In the meantime, the Government may wish to proceed at once with decontrol of those commodities where domestic prices are currently depressed, or for which competitive import and marketing/processing channels already exist.

4.76 Assurance of Policy Continuity. A significant obstacle to productive private investment in Panama today is uncertainty about the continuity of any given economic policy measure or set of measures. The creation of a climate of certainty in this respect would do likely more for stimulating private investment than many incentive measures. Investors and entrepreneurs need to be assured of the "rules of the game" for periods of time that are long enough to promise a reasonable rate of return on the given investment . And the longer the time horizon of policy stability to which the investors can look forward, the more likelihood there is that they will invest for the long term. In the new democratic environment, legislative backing for the new policies could well provide enhanced stability.

V. INDUSTRIAL POLICY

A. Introduction

5.1 Panama's manufacturing sector is characterized by a vicious circle of high protection against imports, inward orientation to a small domestic market, lack of economies of scale, and hence high unit costs, leading to a perpetuation of high protection against imports. Over two thirds of gross output consists of first necessity consumers goods (food and clothing) so that high production costs add to the upward pressure on urban wages. Another 20 percent consists of inputs to other manufacturers or sectors (building materials, packaging materials, oil refining) thereby further perpetuating the vicious circle of high costs. The following table compares the ex-factory cost in Panama of some of most important locally produced product groups with their CIF price as of mid 1983. Except for furniture, for which the transport cost in relation to value is unusually high, there is a significant premium, varying between 14 and 114 percent of the CIF value. In some individual products, including some foodstuffs, the difference is over 300 percent. Given that local value added averages about one third of the value of gross output in Panama, this is equivalent to effective protection of about 1,000 percent.

Table 5.1: MANUFACTURED GOODS: EX FACTORY COST IN PANAMA COMPARED TO CIF PRICE, MID 1983

Product or Product Group	Percent
Food products	148
Domestic soaps and detergents	114
Textiles	123
Clothing	123
Cement	214
Other building materials	151
Fuel Oil a/	137

a/ The comparison is ex-refiners rather than CIF.

Source: Center for Development Technology: La Proteccion Efectiva de Algunas Industrias en la Republica de Panama, Draft Report, June 1984.

5.2 Not surprisingly, manufactured exports are extremely low. Despite having accelerated in recent years, they still represent only just over 2 percent of gross value, and 2.5 percent of the value of exports of goods and non-factor services. Clearly, this unimpressive performance must be transformed if goods exports are to play the critical role Panama's new development strategy assigns to them.

5.3 Panama's industrial experience illustrates all too clearly the pitfalls associated with import substitution in a small developing country. Its consequences can be seen not only in terms of static cost comparisons as illustrated above, but also in terms of its other side effects: unplanned and inconsistent levels of protection which discriminate between industries in a manner totally unrelated to comparative advantage, increasing capital intensity, the dedication of entrepreneurial energy to obtaining permits and finding loopholes in regulations, low product quality, and the dominance of the small market by one or a very few producers in nearly all subsectors.

5.4 To break from this vicious circle into one of export-led expansion, would imply a transformation of the domestic market environment and the structure of incentives. The domestic market needs to be opened up by removing price controls and quantitative restrictions so that exporters may have access to the international market for their necessary inputs and so that the functioning of markets more accurately reflect relative scarcities. Moreover, successful export orientation requires a firm and stated commitment by policy makers to make exporting (regardless of what is exported) at least as profitable as producing for the domestic market. Experience teaches that this is best achieved through setting relatively uniform across-the-board incentives related to a simple, widely known set of "rules of the game".

5.5 Panama has begun to move in this direction, although much remains to be done. This chapter details the characteristics of the manufacturing sector, and of the existing system of incentives, in order to provide dimension to the challenge which faces the Authorities, as well as frame detailed policy recommendations. It begins with an overview of recent trends, then discusses the current policy framework, employment and export incentives before considering the Government's new industrial development strategy. Finally, there is a brief discussion of the prospects for industrial exports.

B. Recent Performance and Trends

5.6 While the growth of the manufacturing sector exceeded that of GDP in the 1960's, it has since lagged behind with a corresponding fall in its

Table 5.2 : GROWTH IN THE MANUFACTURING SECTOR, 1960-1982
(Percentages)

Period	Annual Average Growth Rate of Manufacturing	Annual Average Growth Rate of GDP	Share of Manufacturing in GDP
1960-69	11.4	8.1	1960: 13.1
1970-75	2.9	4.7	1970: 12.5
1976-79	3.2	3.4	1979: 11.3
1980-83	-0.4	3.2	1983: 9.5

Source: Statistical Appendix, Tables 2.4, 2.6 and 8.1.

share. Rapid expansion in the 1960's was driven almost entirely by import substitution. The business climate was favorable and the private sector was the source of most financial and entrepreneurial resources. The marked slowdown in the 1970s reflected a deterioration in business confidence due to the protracted Canal negotiations, and to state intervention measures such as the Labor Code, price and rent controls. The sector did not share in the 1978-82 economic recovery in Panama; indeed it continued to be adversely affected by the policy and institutional environment. While there is general agreement that further import substitution possibilities are now severely limited, the policy framework is only slowly and partially adapting itself to encouragement of exports.

5.7 The most important change in the structure of manufacturing since 1970 is the increase in the share of food processing. The sharp decline in the share of oil refining reflects increased competition from other refineries in the area which are more efficient and have a more appropriate product mix.

Table 5.3: STRUCTURE OF THE MANUFACTURING SECTOR 1970 and 1982
(in percentages of total value added in 1970 prices)

	1970	1982
Consumer Goods	65.6	72.6
of which: Food Processing a/	35.3	47.3
Clothing and Footwear	10.4	10.2
Intermediate Goods	31.3	24.0
of which: Oil Refining	10.1	3.0
Non-Metallic Minerals	7.6	6.3
Capital Goods	3.1	3.4
Total	100.0	100.0

a/ Including beverages

Source: Statistical Appendix, Table 8.2.

5.8 Starting from a very low base, exports of manufactured goods have expanded since 1970, and particularly since 1975. However, in 1982 they still represented only 2.1 percent of gross sales.

Table 5.4: MANUFACTURED EXPORTS a/, 1970-1982

Year	(A) Manufactured Exports (B/.millions)	(B) Gross Value of Manufactured Output (B/.Million)	A as Percentage of B
1970	1.6	356.5	0.5
1975	8.1	975.5	0.8
1980	31.2	1,514.4	2.1
1982	38.5	1,822.7 b/	2.1

a/ Categories 5 through 8 of the SITC Code less Category 68.
b/ Preliminary.

Source: Statistical Appendix, Tables 8.1 and 8.4.

5.9 Manufactured exports are highly concentrated with regard to both products and markets. About 75 percent of the increase since 1970 has been in clothing, food processing and leather goods, although more recently chemical products have claimed a larger share. This was due mainly to the export of medical products, paints and rubber products directed to Caribbean and Latin American countries in the late 1970's. In 1981, over two thirds of the sector's exports went to a few regional markets, principally Central America, Colombia, Venezuela and Netherlands Antilles. Economic and other difficulties in these markets largely explain the slowdown in the rate of expansion since 1980. The Government is now actively engaged in trying to attract investors from the Far East and elsewhere who have export-oriented manufacturing experience and whose main markets would be in Europe and North America.

5.10 Data on investment in manufacturing is scarce and rather unreliable. It indicates, however, that private investment has remained at a very low level since 1970. Sharp increases in the total value of investment in 1977 and 1978 were due to substantial public capital expenditures in sugar mills and a cement plant. The stock of foreign direct investment in manufacturing had the same nominal value at the end of 1981 as at the end of 1975. There was consistent net disinvestment by foreigners from 1976 through 1978. After the ratification of the Canal Treaties in 1979, some capital returned but net disinvestment resumed in 1981. One of the salient characteristics of Panamanian manufacturing is the low degree of foreign ownership. Even those firms with foreign shareholding must have local partners owning over one third of the capital. Short term prospects for increased investment are bleak. Both domestic demand and that in traditional export markets is slack. Even were it buoyant, however, substantial new investment would be unlikely since the sector is operating at an average 30 percent capacity utilization 1/. Nearly 60 percent of the industries operate only one shift and several entrepreneurs reported capacity utilization levels as low as 10 percent.

C. The Current Policy Framework

5.11 The trends described above are wholly consistent with the prevailing structure of incentives. The usual incentive mechanism for manufacturing investment is an individual contract with the Government under which the investor undertakes to carry out an investment project in return for exemptions from income tax and import duties, reduced rates of taxation and/or tax credit certificates. On expiring, these contracts have been renewed automatically. In addition, benefits usually include protection against foreign competition through import quotas or other quantitative restrictions. Intensive use of capital over labor has been favored by incentives such as re-investment and accelerated depreciation allowances . Effective protection of final goods produced for the local market is frequently excessive, and has diverted entrepreneurial and financial resources away from exports. Individual contracts increase dispersion of effective protection, discriminate against small firms, and relate benefits to negotiating strength rather than desirability of the project. Quota protection is usually accompanied by price controls which limit profitability, favor consumption over savings and discourage investment.

5.12 It is hardly surprising that such a policy framework has fostered the development of industries operating at low levels of efficiency with overdimensioned plants. High protection, intended to last only for a certain period, is frequently perpetuated due to the combined bargaining power of the industrialists and labor unions. The costs, borne mostly by the consumer, are frequently not well understood. Preliminary estimates of effective protection indicate an average level in excess of 80 percent, with rates as high as 1,000 percent prevailing in some subsectors. The protective system is, moreover, concentrated heavily in favor of final products and actively biased against local procurement of intermediate goods and raw materials. There is also a triple bias against small firms. First, applications for individual contracts are costly, and their approval subject to administrative discretion. This clearly favors financially powerful companies. Second, the incentive system frequently makes uneconomic the subcontracting activities normally appropriate for small enterprises: it is cheaper for a larger firm to import. Industries tend to select their production processes, and hence the inputs they use, according to the pattern of incentives rather than the potential and capacity of domestic producers. Third, small manufacturers are often unable to import intermediate goods and raw materials directly, which is a privilege negotiated as part of an individual contract. Instead, they must use intermediaries who capture for themselves many of the benefits of the incentive system.

1/ According to the industrialist's organization Sindicato Industrial de Panama. Full capacity would be defined as two eight hour shifts.

5.13 The incentives are also strongly biased against employment creation. Since the passage of the Industrial Incentives Law in 1970 (Law No. 413) 2/ and of the Labor Code in late 1971, manufacturing has generated 530 new jobs per year compared with 2,400 per year in the 1960's. Again compared with the 1960's, the capital: output ratio 3/ rose from 1.4 to 4 and the average capital cost of each job from B/.13,700 to B/.29,500 in constant 1970 prices.

5.14 Most subsectors are characterized by a non-competitive structure in which one, two or three firms control virtually all the domestic market. This is, for example, the case in petroleum refining, vegetable oils, tomato products, clothing, beverages, tobacco, tanning, packaging materials, plastic products, glass products, cement and metal products, to mention only the most important instances. There is also a high degree of ownership concentration: most of the medium and large scale local enterprises are owned by small family groups. This tends to increase both the extent and depth of market collusion and other non-competitive practices.

5.15 In order to protect the consumer from major abuses of monopoly power and oligopolistic collusion, a complex regime of price controls has evolved. Initiated by Law No. 160 of 1969 to help maintain the "supply and orderly distribution" of basic foods and other goods for low income families, controls have since grown to cover some 75 items of which 50 are food and food products. Prices for locally produced food are set at each stage of the production and distribution process starting with the farmer. Other controls are enforced at the retail level. Prices are set by an Office of Price Regulation (ORP) which, however, lacks a clear formula for determining them. Where products subject to import quotas also have controlled prices, the ORP 4/ also administers the quotas. The private sector constantly complains of long time lags (sometimes more than a year) between the petitioning and granting of a price increase. The increases, when granted, often take the form of one large hike, rather than incremented adjustments. This practice squeezes profit margins and discourages investment.

5.16 Widespread contraband lessens the adverse effects of the protection system on the consumer and the economy in general. Smuggling is encouraged by Panama's situation at the crossroads of world trade and by the presence in the country of the Colon Free Zone. Illegal importing of consumer goods from the CFZ is said to have increased since the domestic decline in the Zone's traditional export markets. However, while this may mitigate the suffering of the consumer, it does little to alter the supply side effects of a system of incentives which clearly points in the wrong direction.

2/ This Law institutionalized the concepts of individual contracts with the nation and also generalized many of the other incentives discussed in this section.

3/ The amount of incremental capital investment divided by the increment in output over the same period.

4/ The ORP, although nominally under the jurisdiction of the MICI, acts with a substantial degree of autonomy.

D. Export and Employment Incentives

5.17 In an attempt to correct these anti-export and anti-employment biases, the Government passed two measures during the 1970's. First, export incentives were expanded through Law No.108 of 1974 which created a tax credit certificate (Certificado de Abono Tributario, or CAT) redeemable in payment of direct taxes and customs tariffs. It is given for all non-traditional exports 5/. The amount of the CAT is equal to 20 percent of local value added, and is granted provided the export in question has a local content of at least 20 percent of the gross value. Since 1977, the CAT has been transferable; upon receipt it can be sold or taken to a bank and discounted. This immediate cash value greatly increases its attractiveness to the recipient.

5.18 After the introduction of the CAT in 1975, the value of non-traditional exports increased rapidly while their share of total exports rose eight times.

Table 5.5: PERFORMANCE OF NON-TRADITIONAL EXPORTS SINCE INTRODUCTION OF THE CAT, 1975-82

	1975	1982
Value of non-traditional exports (US$ Millions)	9.3	74.5
Non-traditional exports as percentage of total exports	3.0	24.3
Proportion of non-traditional exports benefitting from the CAT	12.0	72.0
Average CAT received as percentage of FOB value	18.5 a/	13.0
Total value of CAT granted (US$ Millions)	0.2	7.0

a/ 1975 was an exception; in later years the CAT varied between 12 and 15 percent of FOB value.

Source: Statistical Appendix Tables

5/ Law No. 108 considers non-traditional exports to be merchandise produced or elaborated totally or partially in Panama, with the exception of the following exports: sugar; banana, fruit or mashed banana; honey and molasses; cocoa; coffee (beans); fresh, refrigerated or frozen shrimp; fresh, refrigerated or frozen beef; rawhide; rough timber; cattle, pigs, and horses, live, except those of pure breed; fish meal; other oils, from fish and sea animals; scrap iron; raw tortoise shell; fruit extracts; petroleum and its by-products; sales protected by bilateral agreements of free commerce or preferential trade; sales made from the Colon Free Zone to foreign countries; minerals, metals, and by-products.

5.19 Despite this impressive record, the CAT system as currently operated has some important drawbacks. First, there is considerable administrative delay in the calculation of the amount due. Several firms complained of the difficulty in defining and calculating the local content in a product and also its local value added. Second, the granting of CATs has been highly concentrated both in terms of the number of beneficiaries and of the range of products. About 81 percent of the total issued since 1975 have gone to exporters of only five product groups: seafood, other processed foods, tobacco, clothing and leather products. Furthermore, nearly half the value of the CAT has been received by only six enterprises. This has significantly reduced its impact on the growth and diversification of Panama's exports.

5.20 The second attempt to encourage both exports and employment was through a Decree of January 1979, establishing a scheme known as the maquila program for the promotion of export-oriented assembly industries. Companies operating under the program are required to export the entire output of finished products; in return, they are granted duty-free import of machinery, raw materials and intermediate products, and exemption from sales, export and corporate income tax. The most important incentive, however, appears to be the special labor-training scheme available to maquila industries. The company and the Ministry of Labor sign a contract for the provision of workers selected by a public technical training institute. During the 3 month maximum training period, workers may receive less than the minimum wage while the employer pays no social charges. The trainee is not subject to the full provisions of the Labor Code and may be dismissed or admitted to the permanent labor force at the employer's discretion.

5.21 The program has had a slow beginning. No company was founded until early 1981 and by January, 1984 only seven firms employing some 700 people had been established. All produce textiles or clothing. Five are in Panama City and two are in the Coco Solo reverted land area, adjacent to and administered by the Colon Free Zone. There are two main reasons for the program's lack of success. First, the Labor Code applies in full to all employees after the initial three-month training period. Although some employers are firing and rehiring workers towards the end of the three months, there are clearly limits to such stretching of the law. Most investors interviewed indicated that they had established their plant in the expectation of major modifications to the Code in the near future. Such industries are notoriously footloose and will no doubt depart if such changes are not forthcoming. Second, there was until late 1982 virtually no promotion of the program or indeed of foreign investment generally. This was corrected by the establishment, in 1982, of the National Investment Council (CNI).

5.22 The CNI is meant to assist foreign investors by unifying the fulfillment of bureaucratic requirements into a "one-step" process. This assistance relates, in particular, to the negotiation of the relevant incentive package. The CNI is also charged with promoting Panama as a location for export-oriented manufacturing. It identifies visiting potential investors and arranges visits to potential source countries for Panamanians interested in finding joint venture partners.

5.23 Interviews with representatives of potential investor countries repeatedly suggested that the CNI had so far failed to systematically present production conditions in Panama, in general, and detailed production cost data (on labor, power, land, buildings) in particular. The CNI is aware of this problem; indeed its previous policy was to delay provision of cost data to investors to prevent comparison with competing locations in the region. A more open approach emphasizing Panama's relative advantages has now been adopted, and cost data in a format suitable for detailed production and operating cost calculations are under preparation. By 1984, these improvements were already having an apparent impact. Firm undertakings to invest, measured in terms of the number of jobs created, were more than double the previous three years taken together.

5.24 The Colon Free Zone administration also promotes investment. In principle, the division of labor between the Zone administration and the CNI is clear: the former is exclusively concerned with the promotion of the Zone. In practice the Colon Free Zone represents a foreign investment option that the CNI should present on equal footing with others; there is consequently duplication of effort, and even competition between the CNI and the Zone.

5.25 Foreign trade promotion is the responsibility of the General Directorate of Foreign Trade located in MICI. The Directorate's successes have been limited. Communications with exporters have been poor and recent budget reductions have further reduced the Directorate's effectiveness. Projects such as participation in fairs, commercial and industrial missions and research have had to be discontinued and commercial offices abroad have been closed.

E. The New Industrial Development Strategy

5.26 Aware that the current policy framework is strongly biased against employment creation and export promotion, and that the mitigating measures so far taken have had only a marginal impact, the Government began in late 1982 to formulate a new industrial development strategy as part of its medium term economic policy. For the industrial sector, a three stage approach was adopted: phase out quantitative restrictions (and associated price controls) in favor of tariffs; gradually reduce the level of effective protection and make remaining protection more uniform; and create incentives giving exporting the edge over import substitution. The principal measures taken in 1983 and 1984 include: dismantling import quotas and replacing them by tariffs; drafting new industrial incentives legislation by which the Contracts with the Nation would be replaced by a general system of incentives; once the new legislation is enforced, expiring contracts will not be renewed; formulating a full set of minimum and maximum tariffs as uniform as possible; and simplifying procedures for granting redeemable tax certificates to exporters.

5.27 Although implementation of this plan at first proceeded slowly, it accelerated considerably in 1983. By October of that year about half the quantitative restrictions (QR's) had been eliminated and replaced by tariffs. Most of the new tariffs in the case of existing industrial products range from an equivalent of 25 to 75 percent ad valorem. For agroindustry using local raw materials the initial tariff range is higher, often well above 100 percent ad valorem. This is in order to maintain protection to the agricultural producers, who often receive government-decreed support prices from the manufacturers. For new industries, the authorities have announced that no further QRs will be applied and that effective protection will be a maximum of 125 percent in the first year, falling to 100 percent thereafter 6/ and then progressively towards the minimum tariff level.

5.28 While these accomplishments represent real progress, the full strategy outlined in the Government's program must be carried out if the reforms are to have the desired effect. The key remains improving international competitiveness and increasing employment by removing the anti-export and anti-employment biases persisting in the incentives system.

5.29 After a careful study of effective protection, the Government is determined to eliminate most remaining QRs by mid 1985. By mid 1984, a new minimum tariff level of 10 percent had been established and incorporated into the new, proposed Industrial Incentives Bill. The minimum tariff, by implication, should end full exonerations through its application to some industrial inputs, machinery and food product imports which now have very low or zero tariffs. This will encourage the production of agricultural and intermediate inputs penalized by the current structure of protection and reduce the relative advantage of capital intensive processes.

5.30 A program for reducing tariffs is incorporated in the new draft Industrial Incentives Bill, approved by the Cabinet in June, 1984 and which would replace Law No. 413. The Bill eliminates the concept of individual Contracts with the Nation. Instead, benefits under the Bill would be available to all firms on an equal basis, requiring only the firm's registration in the Ministry of Commerce and Industry. The signing of new individual contracts and the renewal of existing ones would cease when this legislation becomes effective. In the interim period, new contracts and renewals are for a five year period. 7/ The Bill also specifies the protection and benefits applying to industrial activities. Here a distinction is made between new and existing industries. For the former, no more than 30 percent ad valorem tariff protection would be granted, reduced to 25 percent after three years and to 20 percent after five years. For existing industries, initial tariffs which replace quantitative restrictions, would be reduced gradually to no more than 30 percent ad valorem; the speed of adjustment would vary from case to case 8/. The Authorities recognize

6/ Given the average proportion of value added in local manufacturing, these are equivalent to average nominal ad valorem tariffs of about 40 and 33 percent respectively.

7/ Only 6 percent of existing contracts were due for renewal between mid-1983 and the end of 1984.

8/ Tariffs are to be reduced by 20 percent of the existing tariff per year until reaching no more than 30 percent ad valorem. For example, an industry with a nominal tariff of 100 percent ad valorem in year n would have 80 percent ad valorem in year n + 1.

that a few existing industries are unlikely ever to be able to compete under such conditions. The overall economic benefits of the structural adjustment program, however, combined with the proposed gradual reduction in protection, is expected to permit most firms to adjust their operations in a timely manner, while encouraging the establishment of new enterprises. For the new industries, the draft Bill clearly encourages export orientation. Full import duty exonerations would be granted for exports as well as exoneration from all other taxes. Exporters would obtain these exonerations even when the raw materials or intermediate goods concerned are produced locally. The Bill would also abolish previous legal obligations to maintain and increase employment, and to sell products at officially determined prices.

5.31 This strategy represents a major reversal of previous policy and considerable opposition to its implementation may be anticipated. This is already manifest in the difficulties encountered by the Government in negotiating the removal of QRs and the level of tariff protection to replace them. Moreover, the change of direction was initiated a little more than 12 months before elections were held in early May 1984. The Government's courage in adopting a new industrial strategy at such a time should be clearly acknowledged.

5.32 The new Government may now wish to confirm the new policy and explain how it fits into a new export oriented economic strategy. Such an announcement would reduce uncertainty among entrepreneurs as to whether there is a coherent strategy and how measures taken to date fit into it. Lack of publicity or disbelief in the long term nature of the policy impedes the very reallocation of resources which it is designed to produce. It also leads the industrial sector (both management and labor) to complain that they are having to bear the burden of adjustment while other elements of policy, which have a direct bearing on their efficiency and profitability, remain untouched. Principal among these other elements are labor policy, transportation costs, utility services and costs and price controls.

5.33 The Government intends to dismantle gradually the price control system, starting with those products previously subject to quota restriction but now protected by tariffs. This should provide an important stimulus to private investor confidence, and the consequent reduction in bureaucratic interference will help to compensate firms for reduced import protection. However, there has been no general announcement of the intention to abolish price controls, and officials at the ORP are not aware of this policy. Not surprisingly, progress in implementing this part of the strategy has been slow. To the end of February 1984, decisions had been taken at ministerial level to lift controls on 25 products; in only one case, however, were the ORP officials, let alone the producers, aware of this. Similar failure to filter down policy changes to the level of working officials has been noted in MICI itself and in the Customs Administration, where staff were frequently unaware that an import or export quota had been lifted.

5.34 Lack of knowledge of the strategy among the general public, and even within the Government itself, is adversely affecting its implementation and its impact on resource reallocation. The post-electoral period may provide a good opportunity to give the matter full publicity. Changes may later become necessary, but provided these are consistent with the objectives of the original system, they would not invalidate it. Similarly it is essential to ease the impact of adjustment on the industrial sector by announcing parallel measures in other sectors designed to increase the competitiveness of the economy as a whole.

F. The Prospects for Industrial Exports

5.35 There are obvious limits to the extent to which a government, especially in Panama, can stimulate export growth. In the absence of exchange rate adjustments and confronting severe fiscal constraints, it must concentrate on eliminating, sector by sector, detail by detail, the sources of inefficiency. It must also do everything possible to eliminate anti-export bias in the trade and tax systems. To assist competitiveness, exporters should be given free access to inputs at international prices and rebates of domestic taxes. This type of relief is widely recognized under GATT as an appropriate way of stimulating efficient export industries. This would mean making an exemption from the minimum tariff for exporters or adopting some other compensating mechanism, for example a drawback scheme.

5.36 The current system of granting CATs should be greatly simplified, while emphasizing their tax rebate nature so as not to violate GATT rules. They should be granted on the basis of FOB value, not local value added. They should be automatic, rather than discretionary, upon the presentation of evidence of exporting. If the authorities wish to use CATs to stimulate exports with higher percentages of local value added, then certain products should be declared ineligible or eligible only for a lower percentage of the FOB value. The system should be fully publicized and the rules for obtaining the benefits clarified and widely disseminated. These modifications would reduce the concentration of CATs among a few firms and products.

5.37 If Panama is to rely on growth through exports, it must, in addition to realizing the full potential of existing industries, diversify and deepen its manufactured export sector. An ongoing study of the industrial sector has identified a number of investment opportunities including the expansion of current existing industries (such as designer clothes, and assembly of electronic, medical and pharmaceutical products), and the establishment of new, "high technology " projects, including export projects related to the financial and shipping sectors. Given its geographical location, its human resources, and its accessibility to high technology, Panama should be able to develop these new types of industries.

5.38 Experience in other developing countries which have adopted successful industrial export strategies indicates that a key role can be played by well designed promotional and support programs. These should pay particular attention to appropriate institutional support. This would, however, be largely ineffective without a strong, publicly-stated political commitment to the radical policy changes required to adopt an export-oriented development strategy. Such public commitment, translated into clear and universal "rules of the game", is another common characteristic of successful exporting countries which is currently missing in Panama. Despite the beginnings of a change of direction, there is no private sector confidence in the coherence and continuity of policies. Until such confidence can be inculcated through unambiguous guidelines, the effectiveness of both technical and institutional improvements will be severely compromised.

5.39 One factor which may be holding back such an open commitment is the uncertainty inherent in basing growth prospects upon exports. Even if everything were done in Panama to promote and encourage exports, there is no guarantee that the strategy will succeed. Exporting is by nature an uncertain business. One difficulty already encountered is protectionism in the United States, the most promising market in the short and medium term.

5.40 A review of export-oriented industries [9/] in the current pipeline shows clearly that they are predominantly "quota-refugees" from the Far East. The spot market cost in these countries of shares in the quotas imposed by the USA or by "voluntary restraint" is becoming higher than the cost of relocating part of the production to Panama or other countries so far without quota restrictions in the US market. Thanks to these peculiar commercial and policy circumstances, Panama's short term prospects for expanding labor-intensive assembly for exports is likely to be based on relocating Far Eastern industries producing clothing and other "sensitive products". The Panamanian Government has already experienced a US reaction to an increase beyond traditionally low levels of import from Panama of such products. Within months of the start of production of one of the Hong Kong owned maquila industries, the US Department of Commerce made the first of three calls for a reduction of imports from Panama to the USA of the sole products of the plant (womens' woolen sweaters). According to Asian investors interested in the exploitation of Panama's commercial policy status with the USA, production levels will never reach proportions that will trigger protective measures. However, given the experience of the first producer of a sensitive product, this forecast appears unlikely to materialize. The future for such activities is therefore most uncertain and will depend on the dynamics of commercial diplomacy between the USA and Panama.

9/ All such industries would be part of the so-called Maquila Program. (para. 5.20).

5.41 On the other hand, the new elements included in the Caribbean Basin Initiative (CBI) 10/ could provide the basis for some interesting arrangements benefiting Panama's export sector. The possibility of consolidating value-added from two or more beneficiary countries plus Puerto Rico opens up the possibility of establishing so called twin-plant operations, a practice well-known in the US/Mexican border trade. For Panama, twin-plant operations with Puerto Rican industrialists could prove particularly interesting by locating the relatively more labor-intensive part of production in Panama (the Panamanian wage level is about one third of the Puerto Rican) while retaining the capital-intensive and technically more demanding operations in Puerto Rico. The use of the US dollar as legal tender, and the absence of capital controls, make Panama attractive for such operations despite a high wage level relative to most other Caribbean or Central American locations.

5.42 In order to maximize the potential benefit from the CBI, Panama's promotional institutions, CNI and DICOMEX, should be improved. They should:

- familiarize themselves with the administrative aspects of exporting under the CBI;
- provide updated information to investors;
- emphasize in promotional campaigns which products, eligible for entry under the CBI, would be most welcome in Panama; and
- coordinate with promotion agencies elsewhere, particularly in Puerto Rico, to explore the possibilities for twin plant operations.

10/ While the General System of Preferences (GSP) in its present form expires at the end of 1985 and may or may not be extended, the CBI will not expire until the end of 1995. The most important difference between the two schemes concerns the value-added requirement for duty-free entry to the USA. Under the GSP, a minimum of 35 percent value-added in the beneficiary country is required for the good to be eligible for duty-free entry. Under the CBI, the value-added requirement remains 35 percent, but the requirement can be met by consolidating value-added in any of the CBI beneficiary countries, Puerto Rico and the US Virgin Islands; in addition US made components may comprise up to 15 percent of the 35 percent, leaving 20 percent value-added in beneficiary countries. The 35 percent domestic value-added requirement does not preclude the input itself from being produced using foreign components as long as the foreign components have undergone more than "simple combining or packaging operations". Consequently, the net local content of the eligible product can be much less than the 35 percent or 20 percent of US inputs used.

VI EXPORT RELATED SERVICES

A. Introduction

6.1 Traditionally, Panama has derived much of its economic dynamism from its geographic location at the crossroads of world trade. Trans-Isthmian transportation was a vital link in the Spanish Empire's trade network, while in the mid 19th century the construction of a railway transformed the Isthmus into an important transit point for those travelling to the west coast of North America. Most significant of all was the construction of the Panama Canal in the early years of the century. The Canal enhanced the country's geographic advantages immeasurably; as Canal traffic grew, a variety of related entrepot and transportation services flourished. These included trans-shipment, break-bulk, ship repair, bunkering, storage, distribution and services to travellers by ship. Panama became a natural center for regional free zone services, and the Colon Free Zone started on the basis of the substantial flow of merchandise through the Isthmus. Later, the CFZ acquired a dynamism of its own, independent of Canal activity. Accompanied by the rapid growth of financial services encouraged by favorable legislation and the country's open monetary system, these activities combined to make services the most dynamic and by far the dominant sector of the economy.

Table 6.1: THE SERVICE SECTOR IN RELATION TO GDP, 1970-83
(Percent)

	1970	1975	1980	1983 a/
GDP	100.0	100.0	100.0 b/	100.0 b/
Services c/	63.9	65.6	68.5	71.0
Of which:				
Transport, Storage & Communications	6.0	9.0	10.2	16.0
Financial Services d/	10.9	11.6	10.5	9.9
Commerce e/	15.8	14.9	14.9	12.2
Panama Canal f/	7.3	5.8	10.2	9.1
Other Services	23.9	24.3	22.7	23.8

Annual Growth Rates:	1970-75	1975-80	1980-83 a/
GDP	4.7	5.9 b/	3.9
Services c/	5.2	6.9	5.2
Of which:			
Transport, Storage & Communications	13.6	8.6	20.6
Financial Services d/	5.9	3.9	2.0
Commerce e/	3.5	5.9	-2.8
Panama Canal f/	-0.1	18.6	0.0
Other Services	5.0	4.6	5.5

a/ Preliminary.
b/ Includes the effects of incorporation of the Panama Canal into the GDP.
c/ Not including utilities.
d/ Net of imputed commission to avoid double counting of interest.
e/ Including hotels and restaurants.
f/ Prior to 1980 this item covered services to the Canal Area from the rest of Panama; after 1980 it includes the value added of the Canal Commission itself.

Source: Statistical Appendix, Table 2.4.

6.2 The spin-off for the rest of the economy from the service sector has been significant; it employs about 300,000 persons directly, some 55 percent of total employment. Agriculture and food processing have benefitted from the substantial urban market which grew around service activities. The construction sector derived much of its growth in recent decades from the development of the banking sector in Panama City with its tall office buildings and apartments and houses for the foreign and local executives. Local industry has also gained, especially firms producing furniture, building materials and clothing. Government derives substantial income from the service sector, not only in taxes but in the sale of public goods; for example 35 percent of the annual income of the electricity company, IRHE, is derived from sales to commercial customers.

6.3 The future prospects for the service sector are less buoyant. Much of its growth has been oriented to the Latin American market. This is, for example, the destination for practically all the re-exports from the Colon Free Zone. Most of the CFZ's customers will continue to face acute foreign exchange shortages in the coming years. Some of the commercial activity in the CFZ, and much of it in the rest of Panama, benefitted from a substantial number of short term visitors who would stopover on the way to and from Latin America. The number of such visitors has declined in recent years 1/. Tourism from Latin America has been adversely affected by the regional recession, competition from other export-oriented retail centers, particularly Miami, has increased markedly, and Panama has lost its status as an almost automatic stopover point for travellers to and from South America 2/. (See Graph 6.1)

6.4 Similarly, the rate of growth of international financial services is showing signs of slowing down. In 1983, for the first time since legislation establishing the offshore banking sector was passed in 1970, both foreign assets and liabilities of banks based in Panama declined. The immediate causes were threefold. First, the Eurodollar market, of which Panama's financial center is an offshoot, slowed its expansion markedly in 1983, and the international interbank deposit market slowed with it. Second, the continuing financial crisis throughout Latin America drastically reduced commercial lending activities there. Third, confidence among deposit holders in Panama was adversely affected by the protracted negotiations of public sector debt amortization rescheduling in 1983, and by the failure of a Venezuelan bank, which had a considerable part of its exposure linked to activities in the Colon Free Zone. Moreover, future prospects in international banking do not augur well for further expansion. Financial recovery in Latin America is still distant; the trend towards interest rate decontrol in major financial centers may reduce the attractiveness of offshore operations; and improved communications technology is combining with legal restraints on syndication activities to concentrate a higher proportion of financial dealing in the major centers.

6.5 Given its own, more moderate growth prospects, the key question is the extent to which Panama's export-oriented services can act as a springboard for growth of goods exports. While the latter should, in principle, capture substantial benefits from the country's financial, commercial and international transport infrastructure, these are currently limited by a number of institutional deficiencies and cost disadvantages. First, Panama's ports require improved management, equipment and layout to increase efficiency and reduce costs. Second, other institutional factors in the transport sector, such as monopoly practices in land transportation,

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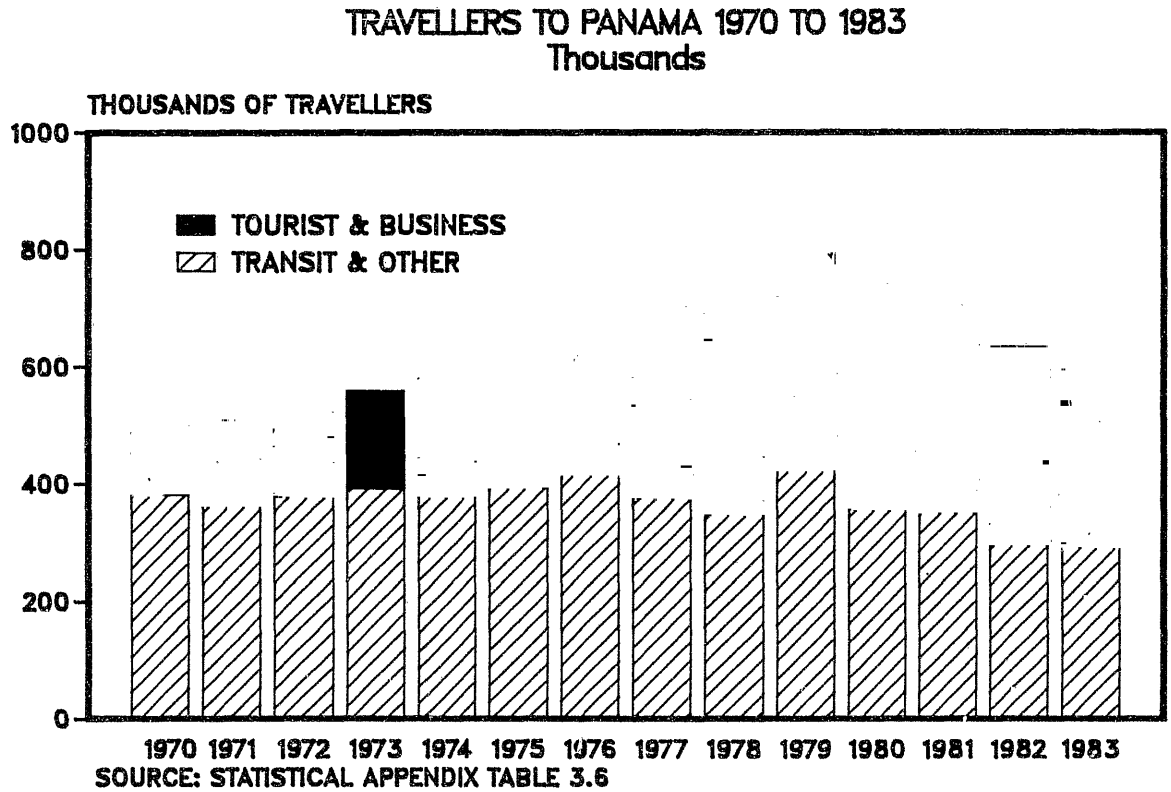
1/ Between 1974 and 1978, the number of international passengers at Omar Torrijos Airport grew at an average of 5.3 percent per year; between 1978 and 1983 this figure declined by 3 percent per year.

2/ This is partly due to developments in aviation technology; the increased use of larger aircraft with no need to refuel between the US and South American destinations will likely consolidate Miami's position as the hub of regional air cargo traffic.

Graph 6.1


TRAVELLERS TO PANAMA 1970 TO 1983
Thousands
THOUSANDS OF TRAVELLERS
1000
800
600
400
200
0
TOURIST & BUSINESS
TRANSIT & OTHER
1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983
SOURCE: STATISTICAL APPENDIX TABLE 3.6

increase costs to the user and reduce flexibility and technological initiatives. Third, not only has entrepot trade declined sharply in the wake of the regional recession, but institutional linkages between the firms which operate in the free zones and those in the local manufacturing sector are not well developed. This limits the latter's access to the former's trading expertise. Fourth, the substantial potential of the reverted Canal Area assets as sites for export oriented commercial and industrial activities has to date been untapped thanks to a political framework which has paralyzed their effective utilization. This chapter addresses these issues in turn.

B. The Port System, the Panama Canal and Ocean Freight Costs

6.6 There are 14 ports in Panama, but those of Balboa at the Pacific entrance to the Canal, and Cristobal at the Atlantic entrance, are by far the most important for international shipping. They accounted for 70 percent of the international vessels that called at Panamanian ports in 1983. Balboa has more cargo, nearly half of it is bulk, and much of the rest containerized. Cristobal has a slightly higher share of container traffic but the percentage of containerized cargo is expected to increase more rapidly in Balboa in the near future. In both ports the number of vessel calls has fallen sharply in recent years; in Cristobal the tonnage of cargo handled has also dropped (Table 6.2).

Table 6.2: THE PORTS OF BALBOA AND CRISTOBAL-KEY STATISTICS, 1980-83

	1980	1981	1982	1983
Port of Balboa:				
Total cargo (thousand metric tons)	420	419	437	475
Of which: Bulk - (percent)	35.4	36.5	34.2	44.4
Container - (percent)	51.5	52.9	53.7	45.8
General Cargo - (percent)	13.1	10.6	12.1	9.8
Vessels calling (int'l traffic)	2,034	2,042	1,733	1,516
Total employment	n.a.	n.a.	639	630
of which operational staff	n.a.	n.a.	476	480
Port of Cristobal:				
Total cargo (thousand metric tons)	434	432	342	344
Of which: Container - (percent)	47.7	53.5	64.6	69.5
General Cargo - (percent)	52.3	46.5	35.4	30.5
Vessels calling (int'l traffic)	2,643	2,410	2,153	1,810
Total employment	n.a.	n.a.	1,295	1,351
of which operational staff	n.a.	n.a.	875	928

Source: National Port Authority.

6.7 Before containerization became widespread, Balboa and Cristobal were important centers of transshipment of breakbulk traffic passing through the Canal. With containerization, there has been a sharp increase in competition from other regional ports, notably Miami and Kingston, and in direct shipments from USA, Europe and Japan to Caribbean and South American destinations. For a variety of reasons, Panama has lost substantially to this increased competition; transshipment traffic fell from about 145,000 tons in 1969 to about 39,000 tons in 1980. This has only been partially compensated for by growth in Colon Free Zone traffic.

Table 6.3: PORT TRANSSHIPMENT TRAFFIC, 1969-80
(Tons)

Year	Balboa	Cristobal	Total
1969	17,704	127,518	145,222
1975	7,424	54,267	61,691
1976	10,538	24,243	34,777
1977	5,457	35,054	40,511
1978	7,259	39,740	46,999
1979	7,638	34,911	42,549
1980	8,038	30,669	38,707

Source: Panama Canal Company.

6.8 First, Balboa and Cristobal are ill-equipped to handle container traffic efficiently. In the early 1970's, other regional ports started to invest heavily in container handling space and equipment. Balboa and Cristobal, then run by the US Canal Zone Administration, did not follow suit. Only in the late 1970's did two private shipping lines set up their own container gantries in Balboa. The port of Cristobal, which has invested, with World Bank support, in a container area, is to purchase two new gantries. In the meantime, it must rely on the service of relatively smaller container carriers, either of the roll-on/roll-off type, or equipped with their own gear. Various initiatives to improve this situation did not come to fruition. In the mid-1970's, the Government wished to improve the country's container handling capabilities by building a major facility at Coco Solo near Colon (at this time Balboa and Cristobal were still controlled by the Panama Canal Commission). This project was, however, costly, and was abandoned in accordance with World Bank advice. Subsequently, after the National Port Authority (APN) had taken over the ownership and management of Balboa and Cristobal in 1979, it did not respond positively to two proposals from the private sector, first from a port operating concern and later from a shipping company, to set up and operate container gantries at Cristobal. Balboa had first two and now one private container area.

6.9 Cristobal's two new container cranes may reverse the loss of business. However, this and other planned improvements to the port are proceeding slowly, and in the meantime traffic has declined. Graph 6.2 shows the small and falling share of Cristobal in Caribbean container traffic. Negotiations are also underway with a private firm to add a second container crane at Balboa. However, the Government's ongoing study of the development potential of the Trans-Isthmian Transport Corridor is investigating the possible use of Panama as a major container transshipment and handling center for round the world traffic. In view of this, the Authorities would likely wish to wait for the results of the study before entering into a new commitment.

6.10 Second, the National Port Authority, in common with most public enterprise monopolies in Panama, pursues a cost plus tariff policy. While this has enabled it to generate a small operating surplus 3/, thereby making a small contribution to capital expenditures, it has also passed on high costs and inefficiencies to the user. Real current costs per ship handled in APN's ports (expressed in constant 1970 prices) rose from B/.3,600 in 1980 to B/.3,900 in 1983. As a consequence, port charges both for ships and for container handling, are much higher in Panama than elsewhere. In Balboa and Cristobal, the charges for handling one container from ship's hold to the point of leaving the port area averages some B/. 375, almost 90 percent higher than in either Kingston or Miami. According to a tariff study carried out by the National Port Authority, port tariffs for ships are 16 percent higher than in Kingston.

Table 6.4: COST COMPARISON OF A TRANSSHIPMENT CALL IN KINGSTON, JAMAICA, AND CRISTOBAL, PANAMA

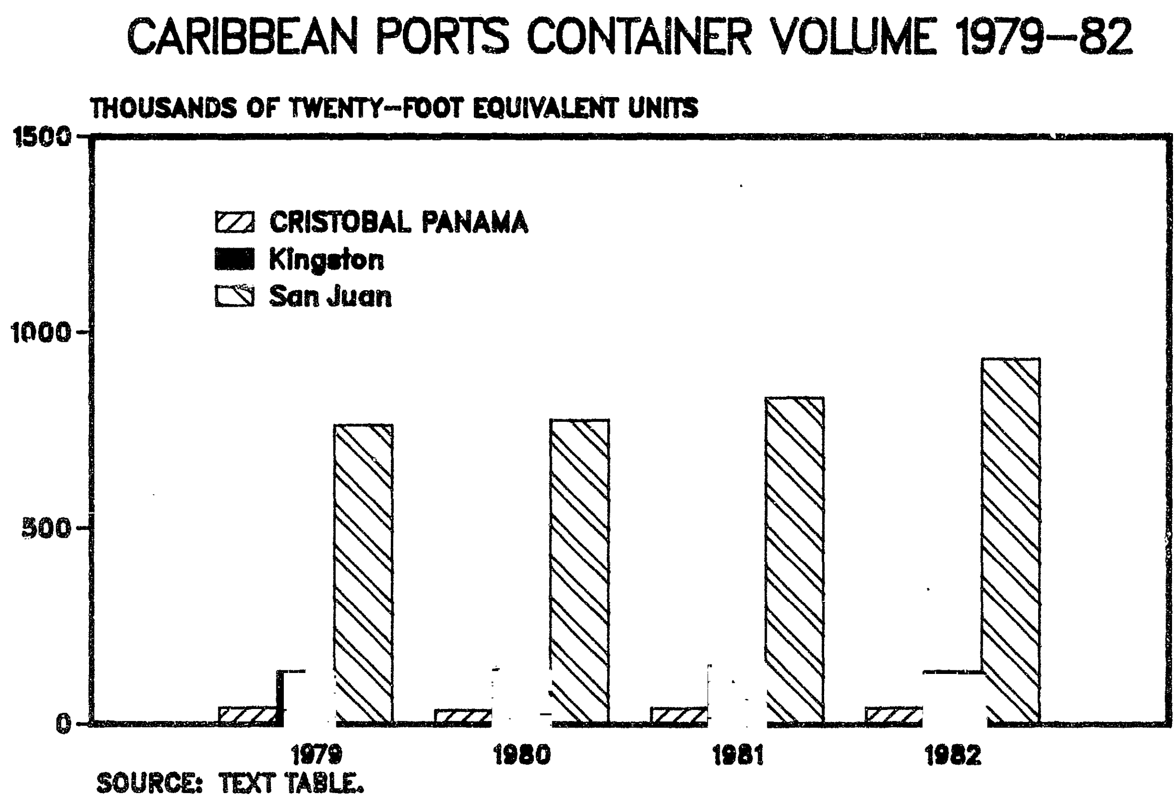
	Kingston Cost as Percentage of Cristobal Cost
Container handling charges	53
Container handling efficiency	207
Hours in port	50
Port tariffs	86
Cargo handling cost a/	106
Direct cost in port	103
Total cost of call in port (including estimated cost of stay in port)	75

a/ Including stuffing and unstuffing of containers cargo.

Source: National Port Authority, Final Report of Tariff Study.

3/ This averaged B/.4.9 million, between 1980, when the entity assumed full responsibility for Cristobal and Balboa, and 1983, 10 percent of the current revenues and expenditures.

Graph 6.2


CARIBBEAN PORTS CONTAINER VOLUME 1979–82
THOUSANDS OF TWENTY–FOOT EQUIVALENT UNITS
1500
1000
500
0
CRISTOBAL PANAMA
Kingston
San Juan
1979
1980
1981
1982
SOURCE: TEXT TABLE.

6.11 Of much greater significance than the level of tariffs, however, is port efficiency which determines the time a vessel must remain in port. Modern container carriers have extremely high fixed costs and therefore place a heavy premium on speed of operation. In Kingston and Miami, more than twice the number of containers per hour are handled, on average, than in Cristobal and consequently the average time a ship spends in port is halved. However, if costs can be brought down and efficiency improved, Panama would be able to tap the substantial potential advantage it has from the existence of the Canal. Ships have to queue to enter the Canal and could, with an efficient operation, discharge substantial numbers of containers while waiting, thus avoiding the loss of valuable hours in port.

6.12 The two principal reasons for the comparatively low efficiency of the two Panamanian ports are poor maintenance of equipment and the labor situation. Maintenance of both cargo handling equipment and piers reportedly slipped during the last two years of the US port administration, and has failed to improve since, making a total of 8 consecutive years of poor maintenance. The labor system is very rigid. Stevedores must be hired in groups of 16 for periods of 8 hours, whether this amount of manhours is needed for a particular ship or not. For example, a ship that needs 9 men from 9:00 to 11:00 a.m. will need to hire a full gang from 7:00 a.m. to 3:00 p.m. In addition, ship operators complain about availability and reliability of the port workers. Wage rates are also high, as a result of comparisons with the earnings of US labor when the ports were operated by the Canal Commission.

6.13 Principally because of low traffic volumes, no advantage is taken of existing spare capacity to negotiate lower outward freight rates. Whereas 98 percent of all containers unloaded in Panama in 1983 were full, almost 75 percent of those loaded were empty. This suggests considerable scope for reduction in outward rates which are currently practically the same as inward rates. Some larger, regular customers have already been able to negotiate reductions which should favor exports.

6.14 Negotiations for lower freight rates may be hindered by the dominance of a few carriers in the country's trade, particularly in container traffic. Although Panama's ports are served by about 155 shipping lines, nearly 50 percent of the cargo tonnage is shipped by eight companies. Their dominance of the container trade is even more pronounced: in 1982 four of them were responsible for nearly 90 percent of all container movements (measured in Twenty Foot Equivalent Units or TEUs) in Balboa and the other four for 65 percent in Cristobal. In each port, the largest firm is responsible for more than 45 percent of the container traffic.

Table 6.5: MAJOR SHIPPING LINES BY VOLUME AND PORT OF CALL, 1982

Lines/Port	Freight (Including containers) Ton(000)	Freight (Including containers) Percent	Container Movements TEUs	Container Movements Percent
Balboa				
Total	437.0	100.0	36,187	100.0
U.S. Lines	122.8	28.1	16,544	45.7
Delta Lines	55.6	12.7	7,469	20.6
Lykes Lines	33.2	7.6	3,126	8.6
European Lines	21.5	4.9	4,553	12.6
Others	203.9	46.7	4,495	12.5
Cristobal				
Total	342.5	100.0	43,391	100.0
Barber Blue Sea	85.2	24.9	20,310	46.8
Zion Line	18.4	5.4	3,141	7.2
Ecuadorian Line	14.4	4.2	1,245	2.9
Sea Land	26.0	7.6	3,656	8.4
Others	198.5	57.9	15,039	34.7

Source: National Port Authority.

6.15 The importance of a few carriers in the total trade is typical of countries with a relatively small volume of container traffic, and there is little that the Authorities can do to address it in the short term. However, experience elsewhere indicates that competition in the container/transhipment business increases with the level of traffic. User charges will therefore likely benefit from a more expansionary policy.

6.16 Before the container revolution, Panama's transshipment and entrepot activities were an offshoot of the growth of Canal traffic. Recent evidence indicates, however, that canal traffic itself is unlikely to be an important growth source in future.

6.17 Although, between 1977 and 1982, the volume of cargo carried through the Canal increased at an annual rate of 8.5 percent, much of this was due to the shipment of Alaskan oil to the US East Coast. In 1983, cargo dropped by 22 percent; 60 percent of this decline was due to the loss of the Alaskan oil business following the completion of the Trans-Isthmian Oil Pipeline in late 1982. The remaining 40 percent is explained partly by depressed international trade and partly by increased use of alternative routes. Coal and coke traffic dropped sharply from 22 percent to 10 percent of total cargo between 1982 and 1983. Although this partially reflected reduced demand by the Japanese steel industry, it was mainly due to an increasing tendency to use larger ships, routing them around Cape Horn.

6.18 More disturbingly from the viewpoint of Panama as a transshipment center, a tendency to use larger ships may also depress the demand for Canal passage by the container trade. Waiting time to enter the Canal may add uncertainty to a tight line schedule or reduce the already slim time difference between the Canal and Cape routes on a voyage between the Far East and Europe. Another major competitor to the Canal for container traffic from the Far East to Latin America and the Caribbean is the US landbridge connecting the US west coast ports with Miami. A through bill of lading combining ocean freight from the Far East to the US west coast, truck or rail to Miami, and sea or air freight from Miami (depending on the value of the goods and their destination) to the final destination is in many cases not only cheaper, but also faster than all-water freight through the Canal.

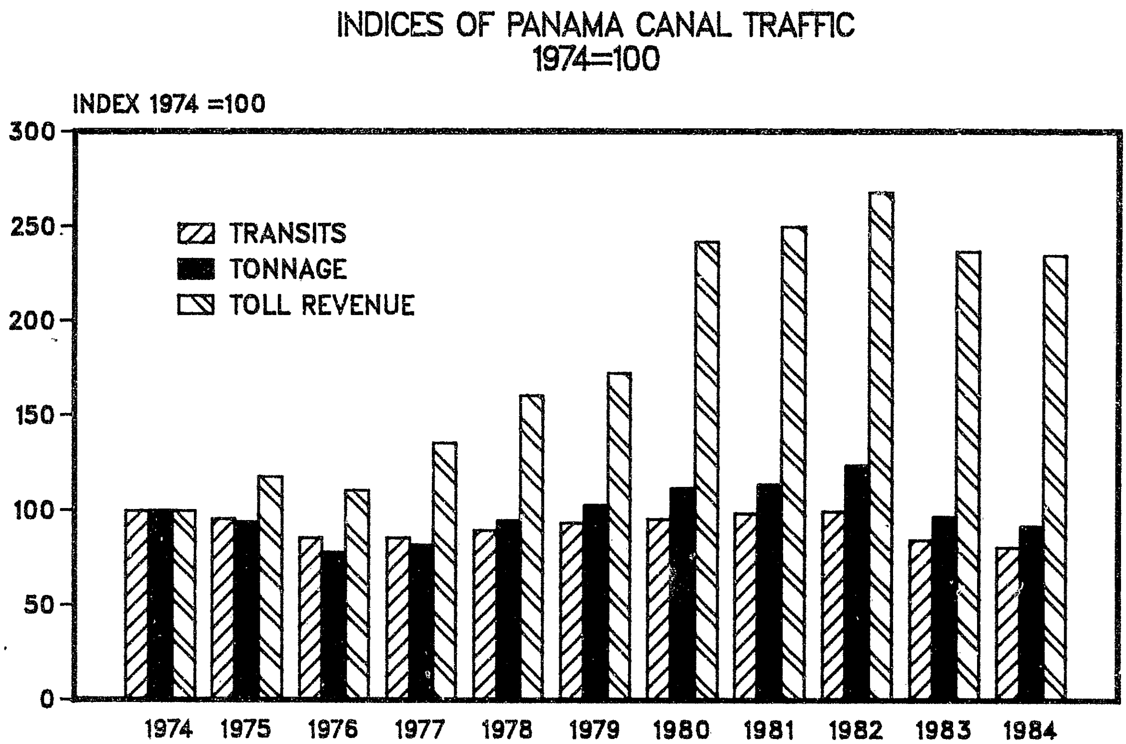
6.19 Taking account of these factors, it is likely that future growth in Canal traffic will be modest. A Canal Commission forecast indicates stagnation in 1984 after the decline in 1983, with transits growing at between 2 and 3 percent per year in the following years. (See Graph 6.3)

6.20 The less than buoyant prospects for Canal traffic give even greater importance to the solution of the problems associated with Panama's ports, if some of the transshipment business lost to Miami, Kingston and San Juan is to be recaptured. An increase in transshipment business, by increasing vessel frequencies, reducing unit costs and introducing the possibility of container operations while waiting to enter the Canal, would also lead to cheaper and more efficient port services for Panamanian exporters.

C. Land Transportation

6.21 Much land transportation in Panama is pervaded by monopolistic or quasi-monopolistic practices which raise costs for the whole economy and are particularly onerous for exporters. Although trucking is not systematically regulated by the Government, individual owner-operators form themselves into cooperatives which control access to routes and cargo and fix rates. Moreover, the trans-isthmian route between Colon and Panama City is dominated by two carriers, Terminales Panama and Terminales Chiriqui. In 1981 these firms accounted for about half of trans-isthmian road freight and 60 percent of cargo loaded for inland destinations at the ports of Cristobal and Balboa. Given the market collusion with the independent truckers' cooperatives, the only competition for trans-isthmian traffic is the rundown railway, whose traffic is declining both absolutely and as a share of the total. The railway's already severe competitive disadvantages in terms of time and reliability are compounded by current tariff policies. A container unloaded at Balboa onto a rail freight car with final destination at the Colon Free Zone must be unloaded off the car within the boundaries of the port of Cristobal, since there is no rail link to the Zone. Instead of being charged only for the cost of this extra handling, the sea carrier is charged full wharfage and handling charges at Cristobal as well as Balboa.

Graph 6.3



SOURCE: STATISTICAL APPENDIX TABLE 8.10

Table 6.6: LAND FREIGHT TRAFFIC BY CARRIERS, 1976 AND 1981
(In thousands of tons and % of total)

	1976		1981	
	Quantity	Percent	Quantity	Percent
Trans-Isthmus Freight:a/				
Terminales Panama	207.4	33.5	271.0	37.5
Terminales Chiriqui	59.9	9.7	75.0	10.4
Independent Carriers	172.5	27.8	222.4	30.7
Total road	439.8	71.0	568.4	78.6
Rail	180.0	29.0	155.0	21.4
Total	619.8	100.0	723.4	100.0
Inland Cargo from the Ports:a/				
Terminales Panama	20.4	47.1	26.7	47.7
Terminales Chiriqui	5.9	13.6	7.4	13.2
Independent Carriers	17.0	39.3	21.9	40.1
Total	43.3	100.0	56.0	100.0

a/ There may be some overlapping of the two cargo categories; it is not known how much of the trans-isthmian traffic is transshipment.

Source: Panama Railway: Marketing Study 1982.

6.22 This market dominance was until recently reinforced by land transport revenue allocation by the Maritime Conferences. The Conferences would agree to divide cargo to be transported inland, or transitted overland from one port to another, in accordance with a prior revenue sharing arrangement negotiated among the truckers. The arrangement also included the railway. While most cargo entering and leaving Panama is not now controlled by formal Maritime Conferences, this has not stopped collusion among truckers' or the reported continued freight allocation by individual shipping lines to trucking companies.

6.23 The recent recession has led the trucking industry to press successfully for protection against foreign truckers and reinforced resistance to entry by new operators. The impact on costs may be illustrated by the example of an agroindustrialist who exports part of his output to Costa Rica and imports some of his raw material from Guatemala. Both importing and exporting is regular, thereby facilitating, in theory, the use of the same truck to bring the raw materials and carry the finished goods. However, foreign truckers are now prohibited from hauling cargo of Panamanian origin in Panama; consequently, the foreign truck bringing in the raw material must return empty. Because of higher tariffs charged for both sections of the haul, and extra handling charges, the cost of the exported product c.i.f. Costa Rica is increased by about 4 percent.

6.24 In a manner reminiscent of textbook monopoly practice, truckers have sharply increased tariffs in response to a decline in business. The cost of transport from the CFZ to ports and airports has increased by between 15 and 150 percent since 1982.

Table 6.7: COST OF LAND TRANSPORTATION, 1982 AND 1984
(US$ per container/truck)

From Colon Free Zone to:	Containers 1982	Containers 1984	Containers Percent Change	Bulk 1982	Bulk 1984	Bulk Percent Change	Break-bulk 1982	Break-bulk 1984	Break-bulk Percent Change
Bahia las Minas	75	125	66.7	175	200	12.5	100	200	100.0
Balboa	175	200	14.3	300	400	33.3	80	200	150.0
Cristobal	75	150	100.0	150	180	20.0	60	85	41.7

Source: Mission interviews.

6.25 These truck tariffs, which amount to almost 20 cents per ton/kilometer, are among the highest in the world. The tariffs shown in Table 6.8, for countries other than Panama, are those for short distances, generally of less than 200 km, and for trucks carrying general cargo with a capacity of between 12 and 20 tons. In all cases, loading and unloading costs are included in the tariff.

Table 6.8: TRUCK TARIFFS IN PANAMA AND OTHER COUNTRIES, 1983
(US cents per ton/kilometer)

Country	Average truck Tariff
Panama	19.85
Nigeria	13.48
Benin	10.06
United States	10.02
Brazil	9.60
Korea	9.60
Bolivia	8.55
Argentina	8.43
Mexico	8.20
Chile	7.93

Source: World Bank Staff Appraisal Reports and estimates.

6.26 These high rates not only reduce the country's competitiveness, but also impede the growth of new service activities. These might, for example, include a trans-isthmian intermodal system which could build upon the changes in transport technology imposed by the advent of large container vessels of some 4,500 TEU capacity. The operating costs of these vessels make them very sensitive to waiting time to enter the Canal which they would only be able to transit by day. If they could use their waiting time to load and unload containers, then this could give Panama a real advantage as a transshipment center. Land transport across the Isthmus could then be used to move cargo to smaller distribution vessels. This already takes place on a limited scale; RO-RO services 4/for high value commodities have been operating in Panama since the early 1960's. Despite being considerably more expensive, RO-RO competes with traditional shipping services through its time and reliability advantages. However, the significant expansion of such services to cover normal trans-isthmian container traffic would require a door to door operation based upon a through bill of lading, as well as a careful blend of operational and infrastructure improvements. One entity (usually a specialized forwarding agent) would take responsibility for the whole movement. The system's success would depend upon competitiveness and efficiency at each stage of the operation. In Panama, on average, the cost of the land transport portion averages 19.5 percent of the combined land-sea revenue5/. This is a much higher percentage than would normally be expected; the average for other, similar countries is 5 percent. Distances are, moreover, shorter than average in Panama which should reduce, rather than increase, the land transport portion of the cost.

6.27 It is possible that economic pressures will eventually erode monopoly practices in the trucking industry. However, once economic recovery takes place, they may return to hinder growth. This could be avoided by prohibiting them by law and by ensuring free entry into trucking, subject to safety and environmental specifications. Lifting the prohibition on the operation of foreign truckers in Panama would reinforce such measures.

D. The Colon Free Zone 6/

6.28 1981 was the last year of uninterrupted growth of the Colon Free Zone (CFZ) since its beginning in 1948. In that year re-exports amounted to more than US$2.3 billion, almost double the 1978 level; employment reached 7,000 persons. Growth in re-exports between 1972-1982 was spectacular, averaging 25 percent per year in nominal terms, and was heavily concentrated in the markets of Venezuela (including Aruba) and Colombia. By 1982, these two countries accounted for close to 50 percent of total re-exports, while once-important markets in Central America and Mexico had dropped to less than 10 percent. Re-exports to Brazil peaked in 1975 at 12

4/ Roll-on-Roll-off services transport loaded truck trailers by ship. The trailers are hauled off the ship at destination port by local tractors which may also take them to their final destination. This kind of operation is particularly attractive for containerized cargo.

5/ For containerized cargo U.S. West Coast to Caracas, Venezuela.

6/ The Colon Free Zone is a public enterprise which has exclusive [illegible] the leasing of warehouse space in the free zone [illegible] permitted. Between 1979 and 1983, the CFZ had average annual [illegible] revenues of B/.7 million and current outlays of B/.6 million.

percent but lost momentum in the late 1970's reaching a low of only 2 percent in 1980. CFZ trade declined by 40 percent in 1983, after an 8 percent fall in 1982. This reflected, in large measure, the decline of the Venezuelan and Colombian markets, in the wake of the financial problems there.

Table 6.9: COLON FREE ZONE: KEY STATISTICS, 1972-83

	1972	1975	1980	1981	1982	1983
Employment	2,660	3,639	6,254	6,918	6,974	6,002
Imports, US millions	245	415	1,781	1,996	1,703	1,151
Re-exports, US$ millions	312	530	2,068	2,338	2,149	1,493
Share of re-exports						
Venezuela, Aruba and Colombia	19.4	21.6	29.8	38.2	46.6	n.a.
Central America and Mexico	17.5	16.1	10.6	9.4	8.4	n.a.
Brazil	8.8	12.1	1.9	1.9	1.9	n.a.

Source: Colon Free Zone Administration.

6.29 The CFZ firms link producers in North America, the Far East and Europe with the Latin American market, offering a variety of services in addition to mere commercial intermediation and break bulk. Several of the larger CFZ firm's links with producers, especially in the Far East and Europe, are long established and they can easily obtain credit from them. This, together with their own financial strength, allows them in turn to extend substantial credit to Latin American importers who would likely be obliged to prepay any direct purchases. Moreover, Panama's strict banking secrecy extends to the CFZ and, together with a tradition of mercantile discretion, provides an attractive environment for the Latin American importer.

6.30 This largely unique mix of services means that the CFZ will likely continue to have substantial business in Latin America for the foreseeable future. Zone merchants are optimistic concerning their ability to compete in a revived Latin American market and are content to wait out the recession. However, three factors may undermine the Zone's prospects for further rapid growth beyond mere recovery to pre-recession levels. First, there may be an increasing tendency for some countries to rely on direct transactions rather than on the CFZ. This has already occurred in Mexico and Brazil, where shortage of trade credit is often overcome by direct bilateral dealing involving the respective governments, sometimes using barter as a means of exchange.

6.31 Second, some CFZ markets, such as Central America and the Caribbean, have declined because they increasingly rely on other free zones, especially Miami.7/ Although Miami does not yet have the contacts and credit links comparable to those of the CFZ operators, it does offer other advantages over Panama: the ability to provide direct retailing services to the US market, a vastly superior transport infrastructure, and cheaper, more efficient auxiliary services, particularly utilities and telecommunications. The International Airport and the Port of Miami have provided springboards for the growth of trade. The airport has established itself as the gateway to Latin America, for both passengers and cargo. The port has expanded into one of the major ports of the Caribbean region in little more than 10 years. Almost all cargo is containerized. Port users have benefitted from a policy which has concentrated public sector resources on the construction of infrastructure and acquisition of equipment, but allows the private sector to operate the port through the sale, lease and renting of facilities. In order to successfully withstand the competition from Miami and other potential zones, it is important that the CFZ be given similar advantages through improved port operations and facilities, and a more liberalized regulatory framework for land transport. This could stimulate the re-establishment of a successful transshipment business at Cristobal, and reforge the linkages between the CFZ and Canal traffic which were cut with the advent of containerization.

6.32 The third limitation on the CFZ future growth possibilities is its strong orientation towards Latin America. Shifting this orientation to Northern Hemisphere markets would be difficult to achieve on a significant scale. The advantages to a US importer of using the Zone instead of importing directly from source are not identifiable. Were such advantages nevertheless to arise, he would be more likely to use free zone facilities located on US soil.

6.33 The strongest possibilities for future expansion lie in using the Zone as a base for manufactured exports, particularly to the US under the Caribbean Basin Initiative (CBI). Already a few export-oriented clothing producers have located in the Colon area. Activities could be expanded further into the manufacture of light industrial products such as electronic assembly, precision instruments, toys, cosmetics, etc. With a view to this, the Government is already actively promoting Panama among potential investors both in the Far East, and elsewhere. Their location in the CFZ or closeby in the Reverted Areas, would place them well in terms of access to transport and general urban infrastructure. The CFZ already has a number of potential advantages to offer as the vanguard of Panama's CBI response. First, its entrepreneurs are highly experienced and successful traders. Although their existing links with the US market are weak, their knowledge of how to build such links is considerably superior to those in the domestic manufacturing sector in Panama. As in many other countries, lack of export marketing expertise is an important constraint to the development of exporting by

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7/ There are two free zones in the Miami Area: the publicly-owned Miami Free Zone near the International Airport, and the private Port Everglades Foreign Trade Zone, some 3 miles North of the city. While the combined throughput in 1983 was US$512 million, only one-sixth that of the CFZ, growth since operations started in 1979 has been spectacular: over 50 percent per year in nominal terms, before a sharp downtown occurred in 1983, reflecting the Latin American recession.

traditional import substituting industries. In many cases, for example Japan, Korea, Hong Kong, trading companies were able to overcome this during the nascent stages of export oriented industrial development. Second, the CFZ companies have close links with suppliers in the Far East, many of whom have expressed considerable interest in investing in Panama to take advantage of the CBI provisions. Third, there are substantial financial resources among the CFZ entrepreneurs, currently lying idle because of the lack of effective demand for credit among the Zone's traditional customers, which could be used to finance CBI related export operations. Finally, closer links between the CFZ companies and domestic tariff area manufacturers could also be beneficial in more traditional markets. For example, where there is a market in common (the main export outlet for both Panamanian clothing manufacturers and CFZ re-exporters, for example, is Venezuela), there could be scope for economies of scale.

6.34 In order to fully tap the CFZ's potential as a launching pad for exports of locally produced goods, a number of actions are required. First, few Zone merchants are aware of the CBI's detailed trade provisions and efforts need to be made to channel this information to them on a systematic basis. This could be done through the National Investment Council. Second, the Authorities should seriously consider the medium term need for more industrial space and support facilities. This need not necessarily be restricted to the Colon area but could also be developed elsewhere in the Reverted Canal Area. In view of the severe financial constraint on the Colon Free Zone public enterprise,8/ and the public sector in general, the Government could consider the leasing of undeveloped land to the private sector, and lifting the current prohibition on private subletting in the CFZ area. This leads on to discussion of the wider issue of the use of the reverted Canal Area and its assets.

E. The Reverted Areas

6.35 As a result of the Torrijos-Carter Treaty of 1979, 147,400 ha of land reverted to the Government of Panama. Of this, about 17,000 ha are located near Panama City (7875 ha) and Colon (9185 ha). The total market value of this land in mid 1983 was estimated at B/.6.3 billion, almost 50 percent higher than 1983 GDP. Of this total, 86 percent corresponded to undeveloped land and the rest to areas already urbanized9/. As indicated in

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8/ The enterprise's gross cash revenues fell by 12 percent in 1983 in the wake of the decline in trading activities.

9/ The value per sq. mt. of 50 percent of the unimproved land in the Pacific (Panama) area is estimated using the lowest existing urban status market price for unimproved land in the city of Panama (US$5). The value of the remaining 50 percent has been estimated at the ongoing average market price for unimproved land in areas adjacent to reverted areas (US$100/ sq.mt.). A blanket US$25 cost per sq.mt. of urbanized (improved) is added to estimate the value of already developed reverted areas. Because the market information available is scanty regarding the Atlantic (Colon) area real estate market, the assumptions used for estimating land values there should be considered with caution. An average US$54/sq.mt. was used to establish the value of improved land. The value of 80 percent of the unimproved land in the Atlantic has been estimated at the ongoing market price for unimproved lands in the vicinity of Colon (US$5/ sq.mt.). The US$29/sq.mt. value for the remaining 20 percent has been estimated at the ongoing market price of land in Colon, minus US$25/ sq.mt. improvement cost.

previous Bank reports,[10] the reverted lands and assets present substantial economic potential. They include housing, warehouses and dry dock facilities. Many of the services already offered could be expanded and their range widened. Bunkering could be another growth source if petroleum refinery costs--30 percent higher than at other, nearby refineries--were cut. As noted above, current Free Zone activities could expand further into manufacturing for export while some sites near Panama City, such as Albrook Field, might be suitable for development of fruit and vegetable wholesale markets to replace those in the older part of the city. In short, the areas could be the base for an export-oriented industrial commercial complex which would not only be an important source of employment, but would achieve integration into the rest of the economy in the most productive way.

6.36 Because of their strategic location, the reverted lands are of critical importance, especially in Panama city. They are adjacent to the city's most highly valued commercial area. They also contain the major port of Balboa. New export-oriented industrial and commercial activities in the reverted areas would have a considerable cost advantage over those locating elsewhere. This is particularly so since most industrial development to date has taken place in the outskirts of the city. For such industries, transportation to the port of Balboa is only possible through congested central city areas.

6.37 To date, unfortunately, little progress has been made in using the lands and related assets for the country's economic benefit. An appropriate, precise assessment of the market value of reverted assets has not been made, despite the need for such an assessment to form the basis for a rational land use policy. Five years after the Canal Treaty ratifications authorized their reversion, only 12 percent of the lands available for urbanization have been allocated; a further 10 percent is in the process of being allocated. Moreover, of the amount allocated, less than 3 percent on the Pacific side, and none at all on the Atlantic side, is for productive activities by the private sector. The rest is for public administration[11] (55 percent on the Pacific and 79 percent on the Atlantic), housing, recreational and institutional use. A similar picture emerges in the allocation of building space: only 16 percent on the Pacific and 12 percent on the Atlantic is for private sector productive use. On the Pacific side, requests for land allocations as of February 1984 show little private sector interest (13 percent of the total area requested), though the demand for building space is much stronger. On the Atlantic side, private interest in lands reflects their allocation to the Colon Free Zone and related export-oriented industries.

10/ See especially: Panama's Development in the 1980s--a Special Economic Report (2306-PAN).

11/ Including the port areas.

Table 6.10: ALLOCATION OF REVERTED ASSETS AS OF FEBRUARY 1984

	Pacific Side Panama		Atlantic Side Colon	
	Land (Ha.)	Buildings (sq.mt.)	Land (ha)	Buildings (sq.mt.)
Public Sector				
Administration	246.20 a/	114,385	1,271.3 b/	33,987
Recreational	12.26	5,034	25.0	-
Housing	115.89	(635)	116.3	(637)
Other	60.90	287	15.0	15,407
Private Sector				
Productive Activities	12.18	22,630	-	7,292
Institutional Activities			7.5	5,875
Total	447.43	142,336	1,435.1	
Request for Allocation				
Public Sector	1,163.7	18,967	38.5	11,540
Private Sector	208.8	79,511	279.3	7,474

a/ Includes the Port of Balboa.

b/ Includes: Ports of Cristobal and Coco Solo, Mount Hope, Colon Free Zone and 327 ha allocated to the Municipality of Colon.

Source: Ministry of Finance, Office for the Administration of the Canal Area Assets.

6.38 This heavy preponderance of the public sector is inconsistent with the new economic policy of relying to a greater extent on private sector initiative to meet future development goals. Moreover, the allocation of buildings and other developed assets to the public sector will increase public operating expenditures, while generating very little income in return. Even where allocation has been to the private sector the Government does not benefit from land sale receipts or land taxes. Rentals of existing structures are a fraction of current market values.

6.39 There are three main interrelated reasons for this slow pace and misdirected approach: political considerations, an uncoordinated planning effort, and fear of the impact of reverted land allocation on property values.

6.40 The process in Panama which led to the Canal Treaties was laden with social, political and legal connotations reflected in the stated goal that the devolution should "serve the common good". But no further definition or explanation of what exactly constitutes the common good has evolved. This goal now weighs upon the decision-making process regarding the potential use of reverted assets, especially those not technically essential to the functioning of the Canal. Because the nature of some of these assets, and especially their location, places them as prime candidates for the urban expansion of the two major cities in the country, their potential land tenure system has become a matter of major concern--both within the Government and throughout the private sector. Furthermore, a feeling of proprietorship over Canal Area assets pervades among all Panamanians, whose individual definitions of the common good concept do not necessarily coincide, but who seem to agree that rental of the reverted land would be more acceptable than its sale.

6.41 The planning mechanism is also weak, leading to an approach of piecemeal allocation. Three Ministries are involved: MIPPE (overall planning), MIVI (specific physical planning and zoning), and Finance (formal administration and disposition of national assets). There is, in addition, the Canal Authority, created in 1979 but now effectively defunct due to a zero budget allocation. Unfortunately, only this Authority has the legal power to divest reverted land; legislation transferring this power to the Ministry of Finance failed to obtain Congressional approval in 1983 because of political difficulties stemming from the attitudes described in the previous paragraph. The three Ministries, and other public agencies involved, have been brought together into an Office of Canal Area Development (ODAC) under MIPPE. Since ODAC was formed in early 1983, it has been unable to perform important planning functions due to inadequate staffing.

6.42 The misallocation of the assets, which results from poor planning and coordination, is reinforced by treating them as if they had no direct or--more importantly--opportunity costs. Within the planning process, there is an urgent need to establish a mechanism for estimating the economic value of the assets in detail. This activity should be continuous since their worth will vary in accordance with the pace of development and market conditions. The economic valuation process should include housing and assets used by the public sector in order that implicit subsidies and transfers should become explicit. In this context, it is noteworthy that many of the reverted assets already represent a fiscal drain. Canal Area housing units have been made available at heavily subsidized rents, not only to Panamanian employees of the former Canal Company, but also to other upper middle class persons; the rents collected do not pay for the units' maintenance costs. Similarly, the railroad, already losing money before reversion, is now losing more; industrial and administrative buildings are also draining resources; while ship repair facilities, stripped of much of their equipment, have lost an important part of their earning power. This is not a calculated fiscal sacrifice to promote national development, but rather the product of inadequate management and piecemeal planning.

6.43 The piecemeal approach has proved readily acceptable to different interest groups because: (i) the size of each allocation of land, relative to the total availability, is not great and hence appears not to threaten the feasibility of developing a more rational approach in the future; (ii) most allocations transfer assets with right of use but not with full ownership over the land; (iii) each request for allocation is justified and approved on the basis of its individually defined correspondence to the common good goal which allows for a wide range of non-conflicting interpretations; and (iv) it does not require major, sensitive decisions to be taken immediately. This process is also consistent with the "General Land Use Plan for the Panama Canal Area and its Watershed" adopted by the Government in 1979. This defines only in very broad terms the areas where urbanization or agricultural uses may develop, and indicates those which must be set aside for purposes of the Canal's watershed protection, operation, and defense.

6.44 Panama's real estate market is highly speculative. It works well for upper and upper-middle class residents and for commercial activities. It has, however, produced a chronic housing scarcity for lower and lower-middle income groups. The selective introduction into this market of well located reverted lands would have a very limited impact upon the value of land used for lower cost or low middle income housing. However, in the short term, it would reduce the scarcity of nearby, well-located land already in the market, and in decreasing degrees the successively adjacent areas. It would thus affect the market's most speculative holdings, many of them for upper income residential or commercial use. Although a precise evaluation of this effect would require more detailed study, evidence indicates that rental values may fall by as much as 25 percent in areas immediately affected. While this would be a healthy development, given the evidence of speculative overvaluations, it would obviously be resisted by affected interest groups. A significant proportion of the properties concerned are financed by commercial bank mortgages. The total outstanding value of reportedly residential mortgages in September 1983 was B/.597 million, 17 percent of the banking system's total domestic portfolio. The nervousness of property owners and their banks is accentuated by fears, well founded to date, that reverted lands will be made available at less than market value.

6.45 If fuller advantage is to be taken of the reverted areas, a number of interrelated policy changes are required. First, use could be made of a variety of instruments to allow private exploitation of the assets without involving national loss of ownership. These include long term leases and concessions which could present an important but untapped source of fiscal revenue rather than, as at present, a fiscal drain. Second, the previous functions of the defunct Canal Authority could be vested in the Ministry of Finance, as the overall administrator of the nation's assets. The Ministry would be responsible for processing requests for land allocation, with sufficient powers to resist further public sector encroachment. Third, the current practice of renting assets (buildings and land) at well below market rates should cease. Instead, leases should be auctioned and given to the highest bidder consistent with land use zoning policies. Lease agreements should contain rental escalation clauses. Rents charged on already allocated assets, to either public or private sector tenants, could be reviewed and, if necessary, increased to current market values. Fourth, a mechanism should be designed to encourage private investment in land development (including provision of basic sites and services) to implement the land use policy mentioned above. They could be permitted to recoup their investment through subletting. Fifth, a strategy could be developed to minimize the impact of release of the reverted areas on existing land values. This could use techniques such as zoning requirements and coordinated timing of land releases, preannounced to reduce market uncertainty. Finally, to coordinate these efforts, planning capability could be strengthened, both in terms of quality and quantity of staffing, and in terms of political backing.

VII ECONOMIC PROSPECTS FOR THE REST OF THE 1980's

A. Introduction

7.1 Panama's economic situation is serious. Real GDP per capita has declined since 1980, and total GDP has stagnated since 1982. Although the Authorities, in 1983 and 1984, made a major effort in short term stabilization, and have made a good beginning in tackling the fundamental problems of the economy, the public sector will remain under severe financial constraints; it cannot be expanded to stimulate the economy. On the other hand, Panama's capital base is underutilized and unemployment is high and rising. In view of the financial weakness of the public sector, Panama must look to private initiative as the driving force for future expansion. To stimulate private investment, the comprehensive attack on economic distortions and inefficiencies already begun must be continued and deepened. Even then, there is no guarantee of success. If domestic conditions permit and encourage private initiative, and if international conditions are reasonably favorable, then Panama could return to a rapid growth path by 1986 and remain there for at least the remainder of the decade. For this to occur, Panama would need a more open, export oriented economy in which the efficiency of the productive sectors would be on a par with that already achieved by Panama's international services. A more fully employed urban workforce would be dedicated to a broader variety of industrial and service tasks undertaken at competitive world costs. While the policies to pursue these ends are not without risk, there is some historical evidence that they may succeed. After all, Panama's private sector responded quite well to market signals in the 1960's.

7.2 On the other hand, Panama's policy makers do not have an independent monetary or exchange rate policy. Structural adjustment aimed at economic efficiency therefore means tackling every distortion individually and at source. This exacts a high political price in that it involves the Government in a constant series of individual and highly visible confrontations with affected vested interests. To be realistic, economic projections must take account of the possibility that the Authorities may be unable to complete their medium term reform program. Moreover, the structural adjustment process can only be fully successful if the industrial economies continue their recovery, and Latin America begins to show signs of significant recuperation from 1985 onwards. Should these take longer than expected, or should their impact on Panama be weakened by other factors (e.g. higher protectionism, reluctance of commercial banks to extend credit), then structural adjustment would become even more necessary, although the process would inevitably take longer to bear fruit.

7.3 These considerations underscore the uncertainties inherent in forecasting the future behavior of economic variables, especially in a country going through both a political and an economic transition period. To better assess the prospects for medium term recovery under such conditions, a macroeconomic model of the economy has been developed and used to explore various future scenarios. The characteristics and functioning of the model are explained in Annex I.

B. The Projected Scenarios

7.4 The principal driving forces for the model are the level of real investment, productivity, and exports. Since the amount of public sector investment forthcoming is limited by financial constraints, private sector investment therefore becomes a key variable. The levels and productivity of real private investment are assumed to be determined by the domestic policy environment and international economic conditions. Three scenarios are developed.

7.5 The assumed growth rates for exports are set out in Table 7.1. For the optimistic case, the international environment is assumed to be favorable1/. This permits traditional agricultural exports --shrimp, bananas, coffee, sugar and fishmeal-- to increase in real terms by 4.5 percent per year. Although this is well in excess of what can be expected for sugar and bananas, it reflects mainly the successful exploitation of the excellent prospects for shrimp; output of saltwater pond shrimp could increase fivefold in the medium term and world price prospects are good. Nontraditional agricultural exports are expected to perform well. Grass fed beef production for export is already increasing following the lifting of export quotas in March 1983 and the resumption of sales to the US market a year later. Also on the increase are exports of horticultural produce, especially some tropical fruits and citrus products. Provided an appropriate policy environment is maintained for these activities, they should at least equal the performance of the traditional exports. For the base case, also, the domestic policy environment for exports is assumed to be encouraging. However, the international environment is less favorable; commodity prices are less buoyant and projected OECD growth lower. Consequently, the overall growth in agricultural exports would be reduced to a real 2.5 percent per year, though shrimps still perform strongly.

Table 7.1: ASSUMED REAL ANNUAL AVERAGE GROWTH RATES FOR EXPORTS UNDER ALTERNATIVE SCENARIOS 1984-89

Type of Export	Base Case	Optimistic	Pessimistic
Traditional agricultural goods a/	2.5	4.5	1.1
Petroleum products b/	1.5	2.5	0.1
Other agricultural goods	2.5	4.5	1.0
Manufactured goods	10.0	13.0	6.5
Non-factor services	4.0	7.0	2.5

a/ Bananas, sugar, shrimp, coffee, and fishmeal.
b/ Mostly bunkers to ships transitting the Canal.

1/ The OECD countries are assumed to grow at 4.3 percent in accordance with the high case set out in the 1984 World Development Report, and the Latin American economies by 5 percent from 1985 onwards.

7.6 In the case of manufactured goods, it is assumed that significant policy actions are taken to encourage export oriented foreign and local investment in accordance with the recommendations set out in Chapter V. For the base case, these would fall short of major changes to labor legislation while a regime of price controls would be maintained for most basic consumer goods. Nevertheless, the balance of incentives would be redressed by making it at least as profitable to export as to produce for the domestic market. Under these policy assumptions, and in a favorable international setting, it is assumed, for the base case, that manufactured exports increase by 10 percent per year in real terms. This is modest compared to the achievements of many countries, especially taking account of the low base from which manufactured exports are starting. In the optimistic case, a 13 percent growth rate is assumed.

7.7 Panamanian exports are dominated by services, which account for nearly 75 percent of total exports of goods and non-factor services. These are assumed to expand at a real 4 percent per year in the base case and 7 percent in the optimistic case, both somewhat lower growth rates than the 8.4 percent experienced between 1975 and 1983. Recovery in the Colon Free Zone, and in the financial services subsector, will depend upon a resumption of growth in the Latin American Region. Value added from the Canal and related activities is expected to be relatively stagnant, although this will be compensated for by diversification into new service activities, stemming from greater efficiency in the land transportation and port systems, as well as more intensive use and development of the reverted Canal Area lands and assets.

7.8 It is assumed that the policy improvements implicit in the base case scenario encourage a significantly stronger private sector investment performance than in the recent past. For reasons discussed in Chapter I, private investment in real terms fell between 1968/73 and 1978/83. Here it is assumed that after continuing to fall through 1986, it increases at a modest average annual rate of 2 percent over the period 1983-89. Public investment would be at a considerably lower relative level (on average, some 6.5 percent of GDP over the 1984-89 period, compared with 10 percent between 1980 and 1983), and financed to a larger extent from official sources and an improved public savings performance. The greater preponderance of private over public capital expenditures would improve the productivity of investment: the incremental capital output ratio (ICOR) would fall from 7 (average 1977-82) to 5 between 1984 and 1986 and again to 4.5 between 1987 and 1989.

7.9 For the optimistic scenario, it is assumed that the Authorities carry out, in a swift and comprehensive manner, their full structural adjustment program. This means that, in addition to reorienting or the structure of incentives towards exports and continued fiscal discipline, issues such as labor market rigidities, price controls, inefficiencies in the operation of public sector enterprises and other factors impeding competitiveness, are fully addressed. It is, moreover, assumed that the Government adopts a well-planned public investment program in which scarce resources are directed at overcoming infrastructure constraints on export-oriented private sector investment. Even under these assumptions, private investment would initially stagnate in real terms. Time would be required to inculcate confidence in the permanence of the new economic policy and the new "rules of the game". Once this confidence has been instilled, it is assumed that private investment by both local and foreign entrepreneurs increases by 10 percent annually between 1986 and 1989. Although rapid, this is still less than the 12.5 percent annual real increase attained during the 1960's. Because of accompanying measures to reduce labor market rigidities, this investment would likely be more labor intensive; accordingly the ICOR is projected to decline to just under 3 during the latter part of the period. The operational significance of this is that by permitting and encouraging private investment generating employment-intensive, export oriented activities, the Government would stimulate greater investment productivity, thereby using investable resources to absorb the rising labor force while maintaining a substantially high GDP growth rate. The reduced scope of the public sector enables, under this scenario, a 35 percent reduction in direct tax rates after 1987 while still reducing the public sector deficit to less than 2 percent of GDP by the end of the period.

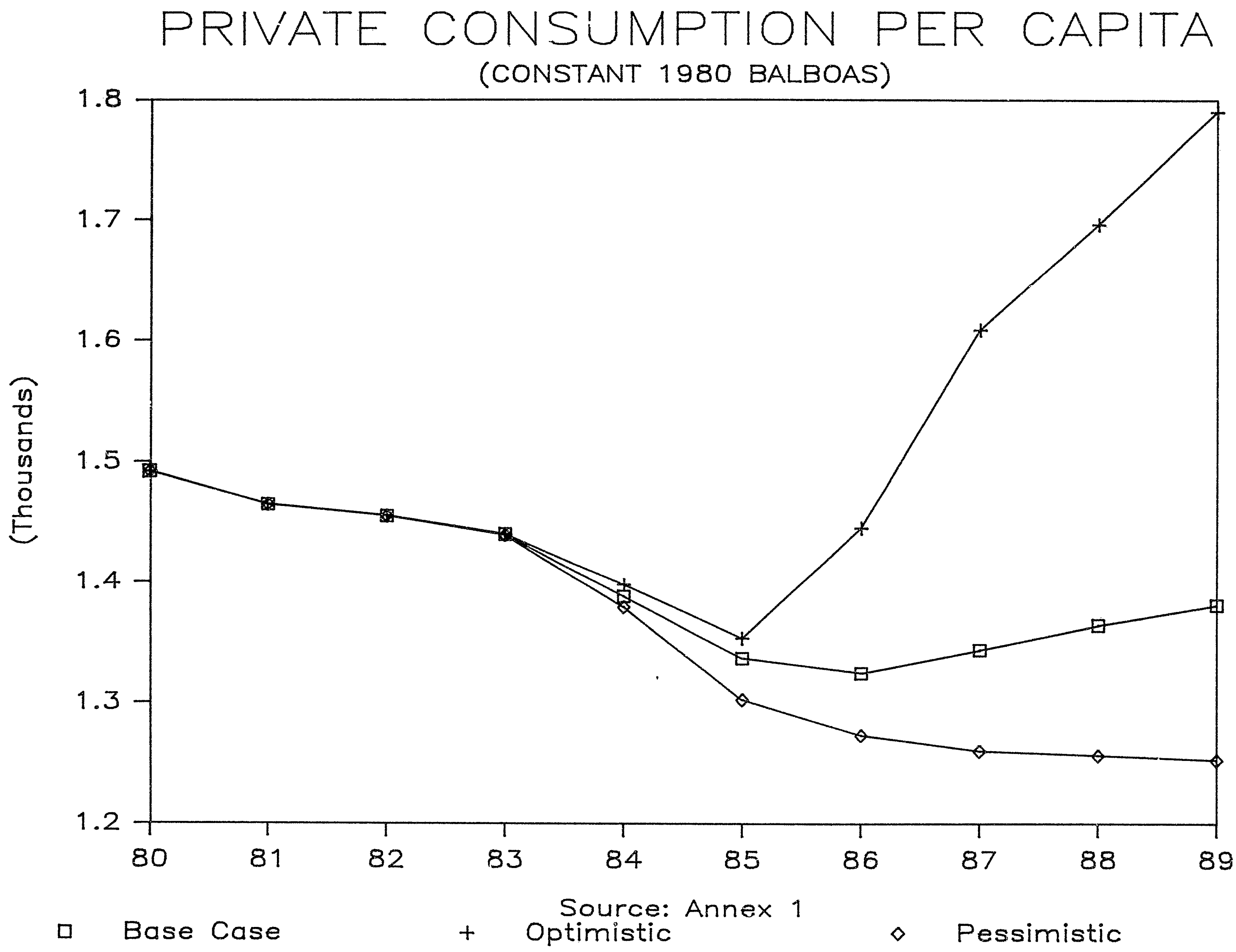
7.10 The pessimistic scenario assumes that real growth in the OECD countries is restricted to 2.5 percent per year from 1985 onwards in accordance with the "low case" of the 1984 World Development Report. Exports of agricultural products are restricted to one percent real growth per year, while the assumed rate of growth of manufactured exports would be reduced to an annual 6.5 percent, and that for nonfactor services to 2.5 percent per year. Domestically, it is assumed that the Authorities are unable to complete their structural adjustment program. Private sector confidence, and hence investment, would remain at a very low ebb. The extent to which the public sector could compensate for this would be limited by the availability of credit. Under these circumstances, the inflow of external capital would be drastically reduced and private investment is projected to fall, in real terms, by 7 percent per year between 1984 and 1989. In the latter year, private investment would be B/.200 million less, in real terms, than in 1983. Furthermore, the investment that would take place would likely be far less efficient. The share of the public sector would increase to nearly half, while the private sector would be limited to services, and industries geared to the local market. The ICOR would remain at present high levels or could very well increase further.

C. Results of the Projections

Economic Growth

7.11 The outcome of the three projections is summarized in Table 7.2 and in graphs 7.1 through 7.5. In the base case, total GDP growth is projected to ultimately recover to 3.5 percent per year during 1987-89. The implications for overall welfare are, however, unsatisfactory: per capita private consumption, after declining by 3 percent per year between 1980 and 1983, would increase only slowly over the projected period and would still be less, in real terms, in 1989 than in 1980. The unemployment rate would increase to 22 percent from the present level of about 11 percent. Clearly, in the absence of measures to address labor market rigidities, the growth rate would be insufficient to generate a demand for labor large enough to match the projected increases in the labor force.

Graph 7.1


PRIVATE CONSUMPTION PER CAPITA
(CONSTANT 1980 BALBOAS)
(Thousands)
1.8
1.7
1.6
1.5
1.4
1.3
1.2
80
81
82
83
84
85
86
87
88
89
Source: Annex 1
Base Case
Optimistic
Pessimistic

Graph 7.2

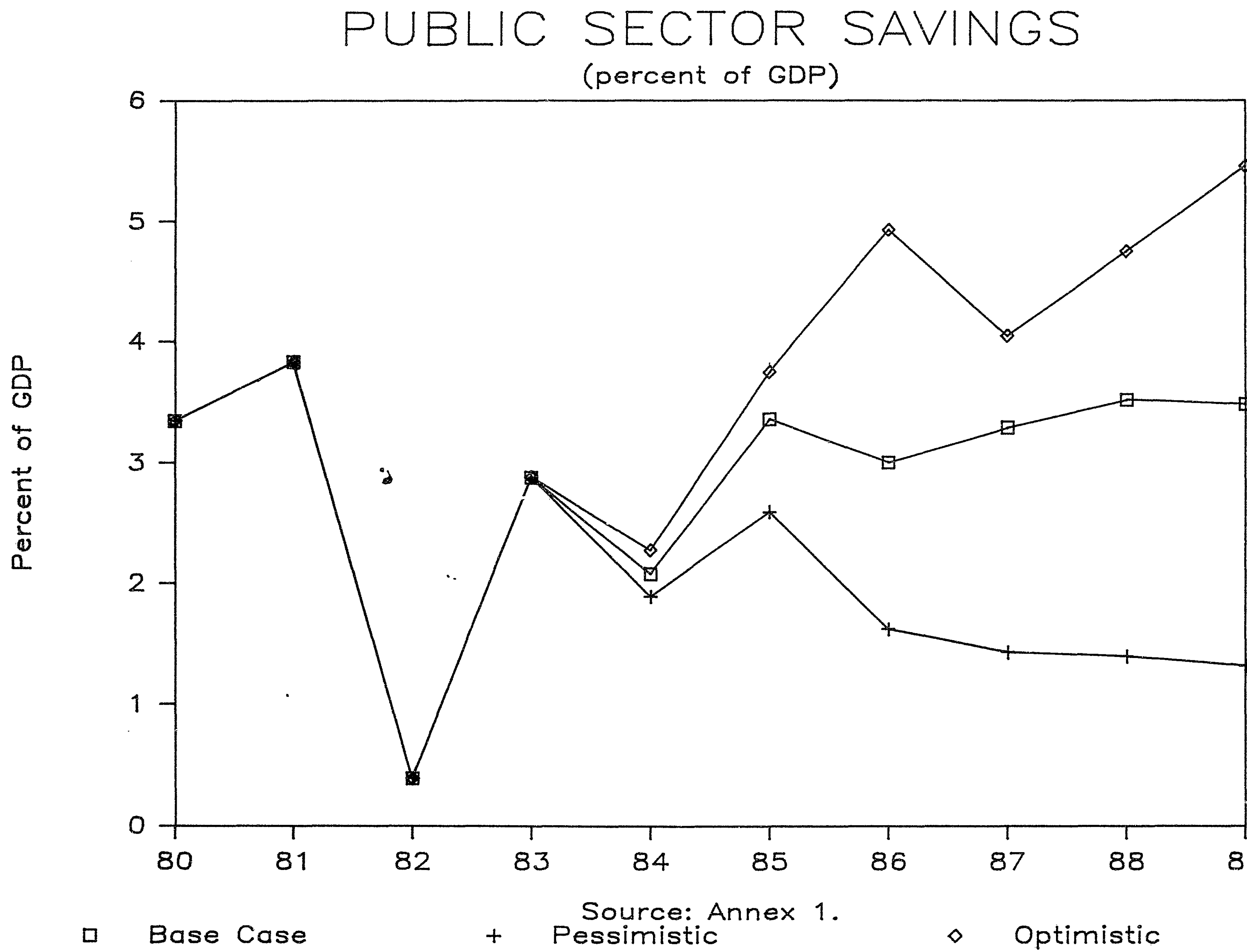

PUBLIC SECTOR SAVINGS
(percent of GDP)
Percent of GDP
0
1
2
3
4
5
6
80
81
82
83
84
85
86
87
88
89
Source: Annex 1.
Base Case
Pessimistic
Optimistic

Table 7.2: ECONOMIC PERFORMANCE UNDER ALTERNATIVE SCENARIOS
(Yearly averages for the period)

Indicators	Actual	Base Case		Optimistic		Pessimistic	
	1980-83	1984-86	1987-89	1984-86	1987-89	1984-86	1987-89
GDP Growth	3.3	-1.7	3.5	2.4	8.1	-2.0	1.6
Per Capita Consumption Growth	-2.9	-2.8	1.4	0.1	7.4	-4.2	-0.5
Growth in Real Private Investment	-2.9	-7.2	2.0	0.0	9.5	-12.8	-1.2
Unemployment Rate.	9.0	17.0	21.9	15.4	10.3	18.2	25.6

Source: Annex I.

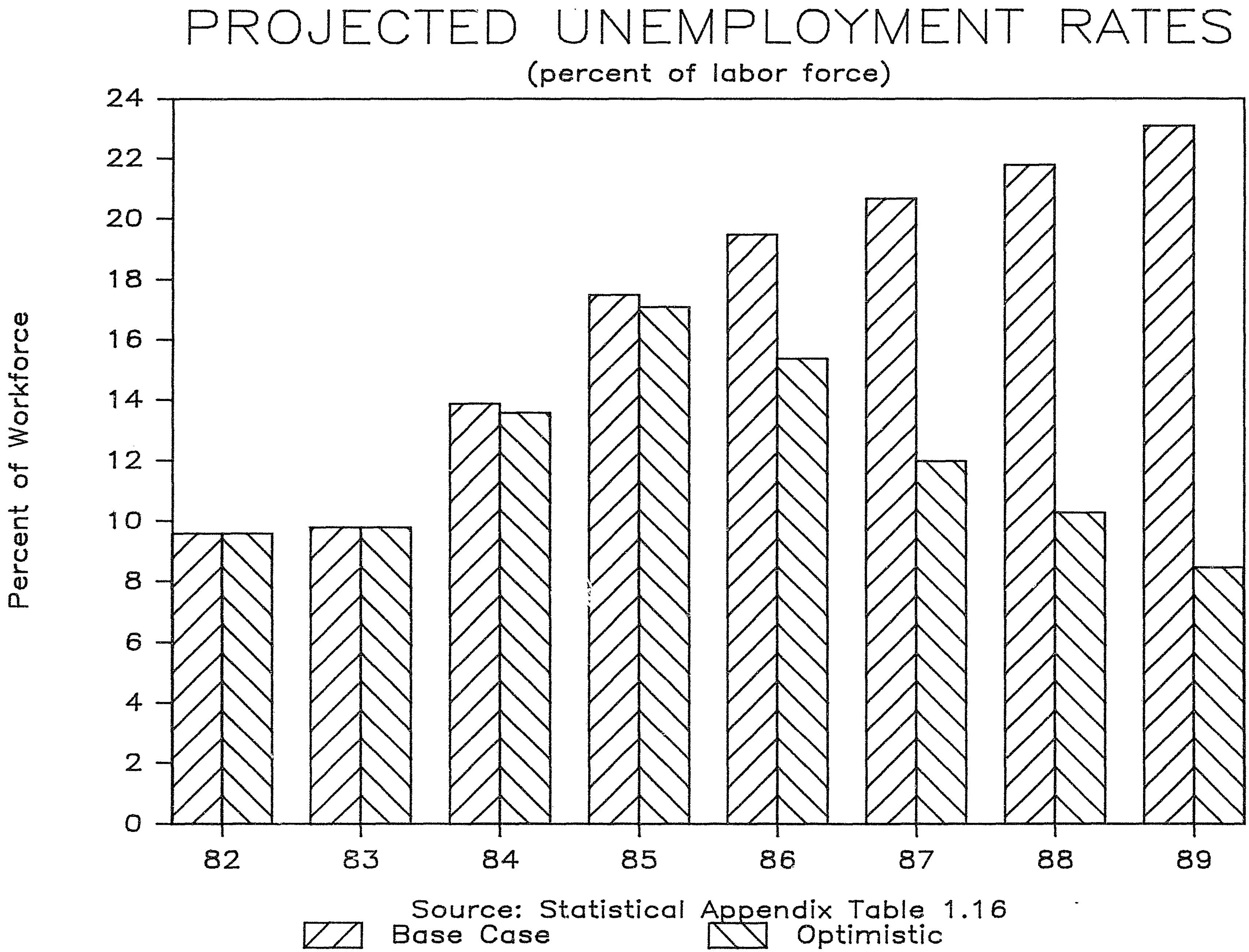
7.12 The optimistic scenario yields a substantially better result. Not only would per capita consumption increase in the short run; it would be rising at an annual rate of over 7 percent by the end of the decade. Equally important, more rapid growth, stemming from greater and more productive levels of investment, would combine with labor market reforms to bring about a sharp reduction in the unemployment rate after 1986. Although the rate would still be slightly higher, at that time, than the 1980-83 average, it would be on a sharply declining rather than increasing trend. Furthermore, the positive effects of the structural adjustment program would continue to be felt well beyond 1990; it would be in that later period that full employment would be attained.

7.13 The pessimistic scenario clearly reaches long run crisis proportions. Per capita income declines steadily; unemployment continues on an increasing trend and reaches over one quarter of the labor force by 1989; real private investment falls sharply over the period as a whole; and real per capita consumption would be 15 percent less in 1989 than in 1980.

Public Sector Performance

7.14 As explained elsewhere in this report, because of the monetary characteristics of the Panamanian economy, the public sector current and capital accounts play the key creditworthiness role normally assumed by the balance of payments. The effects of the three projections on public sector finances are summarized in Table 7.3. In the base and pessimistic cases, current consolidated public sector revenues are assumed to remain constant in relation to GDP. In the optimistic case, relative current expenditures would fall significantly, permitting a reduction in taxes from 1987 onwards. Public savings show considerable improvement by historical standards in both the base and especially the optimistic scenarios. In all three cases, the level of public investment in relation to GDP is substantially lower than the 12.5 percent average prevailing since the mid 1970's.

Graph 7.3



PROJECTED UNEMPLOYMENT RATES
(percent of labor force)
Percent of Workforce
0
2
4
6
8
10
12
14
16
18
20
22
24
82
83
84
85
86
87
88
89
Source: Statistical Appendix Table 1.16
Base Case
Optimistic

Table 7.3: KEY PUBLIC SECTOR VARIABLES UNDER ALTERNATIVE SCENARIOS
(Yearly averages for the period)

Indicators (Percent of GDP)	Actual	Base Case		Optimistic		Pessimistic	
	1980-83	1984-86	1987-89	1984-86	1987-89	1984-86	1987-89
Current Revenue a/	30.6	31.8	31.7	31.7	28.4	32.0	32.1
Current Expenditure b/	28.0	29.0	28.3	28.0	24.2	30.0	30.8
Public Saving	2.6	2.8	3.4	3.7	4.2	2.0	1.3
Public Investment	9.8	6.8	6.3	6.6	5.9	7.0	6.9
Consolidated Deficit	7.2	4.0	2.9	3.6	1.7	5.0	5.6
Consolidated Deficit (B/. millions)	288	183	172	140	81	224	304

a/ Current revenue of the Central Government and decentralized agencies plus the operating surplus of the public enterprises.
b/ Including interest

Source: Annex I

7.15 According to the analysis in Chapter III, the Authorities may encounter difficulties in financing even the historically low deficits projected for the 1984-86 period under the base case. The total borrowing requirement 2/ in the pessimistic case could be about B/.660 million in 1985 and B/.900 million in 1986; these amounts would be virtually unattainable against a background of economic stagnation.

External Public Debt

7.16 The three scenarios assume the same gross disbursements from official lending agencies as well as from grants and net direct foreign investment (a total annual average inflow of B/.211 million and B/.55 million respectively over the 1984-89 period). Since these flows are themselves dependent on the country's growth prospects, the difference among the scenarios is even more dramatic than shown.

7.17 The outlook for public sector medium and long term debt under the three scenarios is summarized in Table 7.4.

2/ Amortization obligations plus the deficit.

Graph 7.4

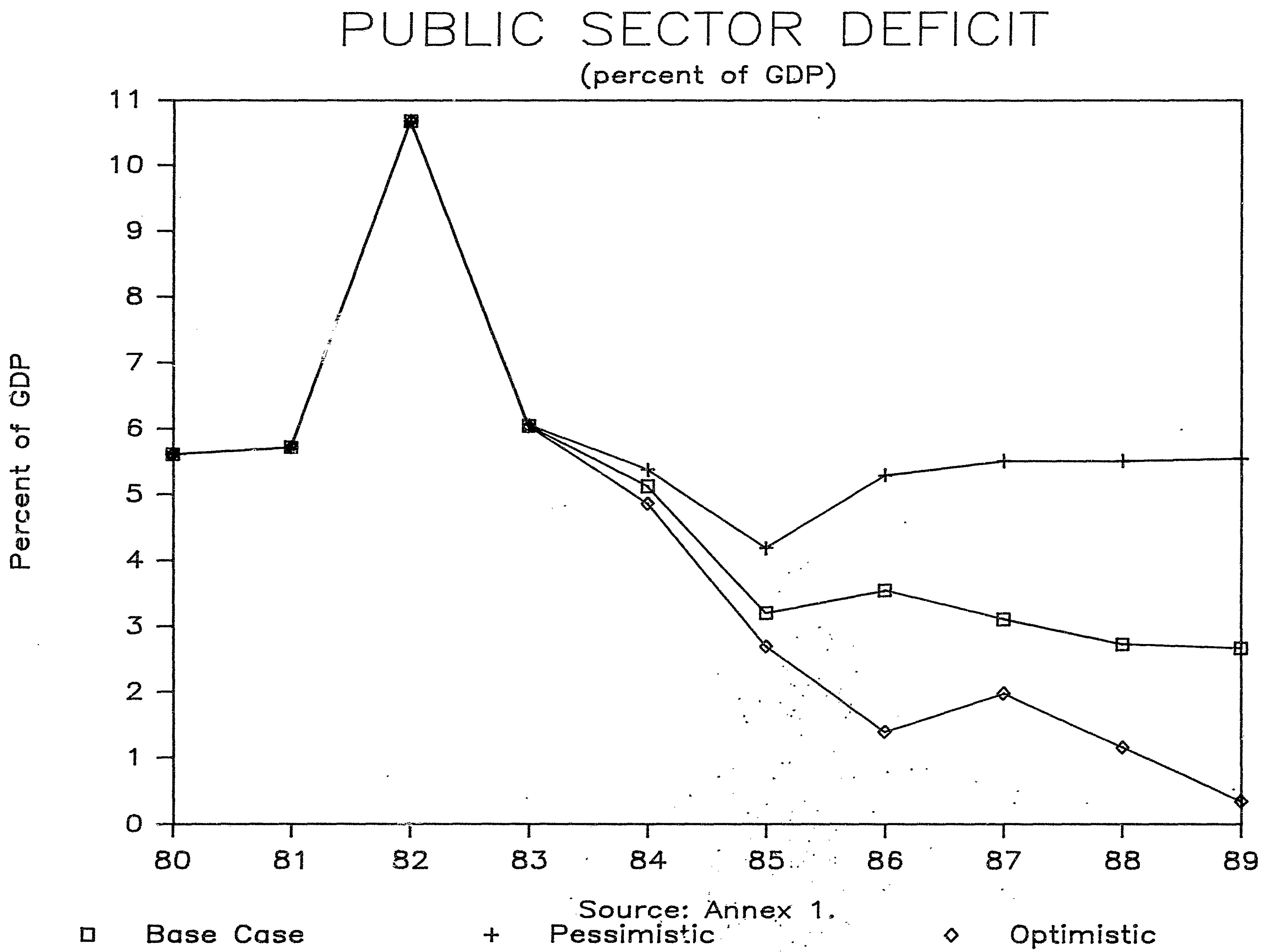

PUBLIC SECTOR DEFICIT
(percent of GDP)
Percent of GDP
11
10
9
8
7
6
5
4
3
2
1
0
80
81
82
83
84
85
86
87
88
89
Source: Annex 1.
Base Case
Pessimistic
Optimistic

Table 7.4: EXTERNAL DEBT VARIABLES UNDER ALTERNATIVE SCENARIOS a/
(Yearly averages for the period)

Indicators	Actual	Base Case		Optimistic		Pessimistic	
	1980-83	1984-86	1987-89	1984-86	1987-89	1984-86	1987-89
Interest/Govt Rev. (%) b/	23.4	21.3	18.3	20.5	15.6	22.0	21.6
Debt Servicing/ Govt. Rev. (%)	39.7	42.7	51.6	41.2	44.8	50.5	58.8
Debt Outstanding /GDP(%)	71.1	74.6	65.7	70.6	49.7	78.3	79.1
Commercial/ c/ Total Debt(%)	73.8	63.9	60.9	63.3	58.0	64.5	64.3

a/ Medium and long term debt only; does not include credits of less than 12 months, IMF, or credits from Venezuela and Mexico under the San Jose Accord.

b/ In Panama's circumstances, debt servicing in relation to public sector revenues is more meaningful than in relation to export revenues.

c/ Commercial banks, foreign bond holders and suppliers' credits.

Source: Annex I

7.18 The base case and optimistic scenarios show similar results. On the positive side, interest payments fall in relation to public sector revenues, and the debt outstanding and disbursed falls in relation to GDP. This reflects essentially the improved public sector savings performance and the reduction of public sector investments as a proportion of national value added. The structure of the debt improves significantly with the proportion of commercial to total debt outstanding falling from 74 percent in 1980/83 to about 60 percent under both scenarios. On the other hand, due to heavy amortization obligations, the total debt servicing ratio rises sharply in the base case by 12 percent of public sector revenues; even in the optimistic scenario there is some increase. In both cases also, the absolute amount of commercial debt outstanding is greater in 1989 than in 1983. In the base case, the new commercial exposure is US$447 million (US$74 million per year) and in the optimistic scenario US$217 million (US$36 million per year). Both of these, particularly the latter, would seem to be feasible in the light of recent experience and of the economy's projected performance under these scenarios.

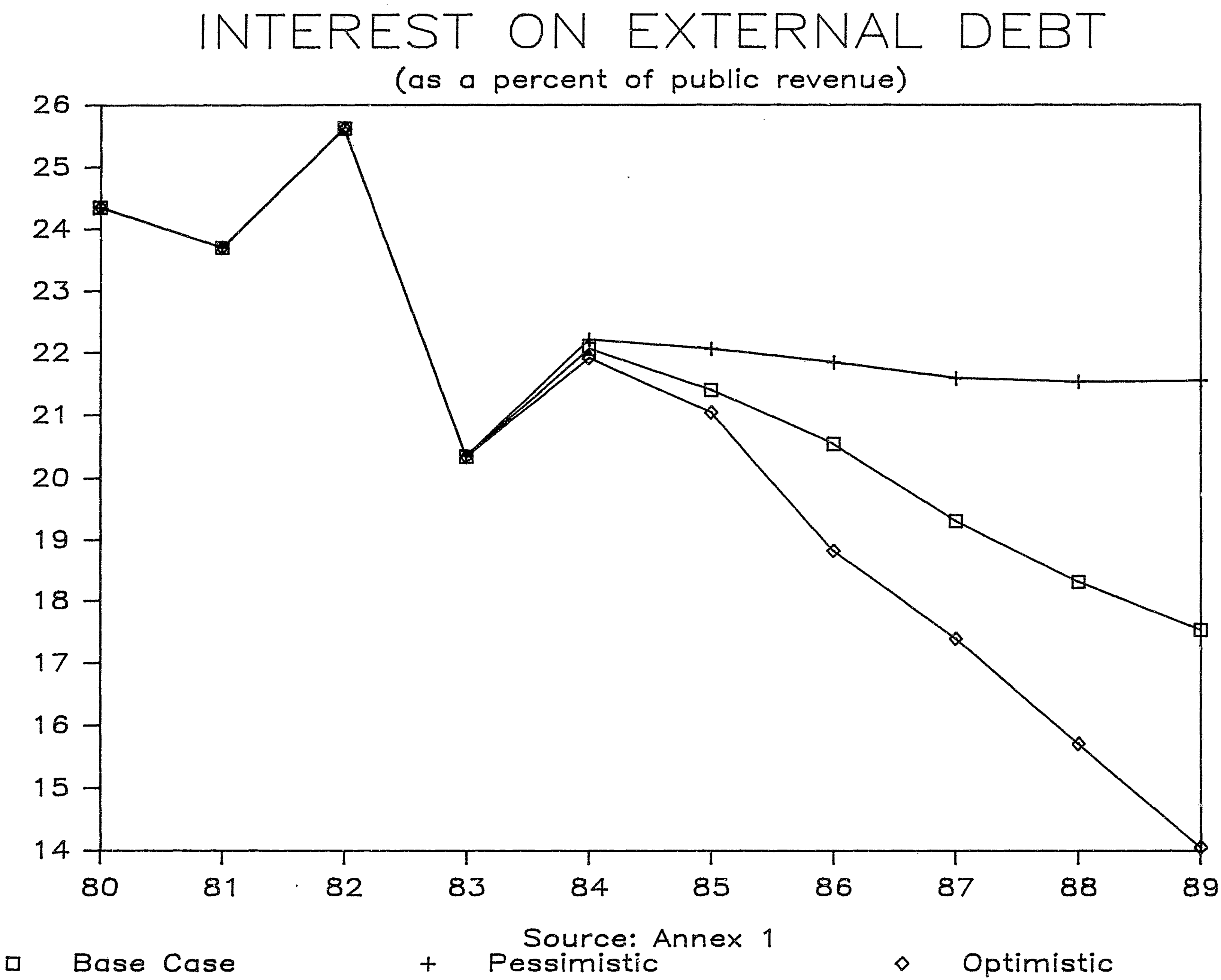
7.19 Two key assumptions of the model are that the public sector deficit is always financed and that commercial amortization payments can be refinanced. As the deficit is larger in the pessimistic scenario, both in absolute terms and in relation to GDP, these assumptions paradoxically increase commercial bank exposure to the public sector more rapidly than in the base or optimistic cases. In this sense, the pessimistic scenario may be unrealistic; it is difficult to visualize commercial banks, in the international environment of the 1980's, lending a further US$1.2 billion to the Government of a stagnant economy. In all likelihood, therefore, the Authorities would have to adopt even more draconian austerity measures than those assumed. The resulting economic contraction would not only feed back on public sector revenues in a downward spiral, but would also lead to deepening social discontent. The point would likely soon be reached where the country would no longer be considered creditworthy and would be unable to meet its external interest obligations.

7.20 There is another sense in which the failure of the Government's program could degenerate into a self-perpetuating downward spiral for the economy. Traditionally, economic expansion in Panama has been fueled to a significant extent by foreign financial resources. This has been facilitated by the openness of the economy and the integration of its financial system with international capital markets. Now, however, with the era of easy access to commercial finance at an end, commercial banks are clearly anxious to limit their total exposure in the country. Greater demands on commercial credit for the public sector, especially against a background of stagnation, would therefore likely limit its availability for the private sector. This would reduce private investment still further, depressing the productivity of total capital expenditures and hence reducing growth prospects.

The Balance of Payments

7.21 The balance of payments in Panama assumes a lesser importance due to the prevailing monetary system. On the current account, all three projections show a positive and growing resource balance, due in the base and optimistic scenarios to strong export performance, but in the pessimistic case to low import growth. The terms of trade show little expected change over the period. The medium and long term capital account depends largely on fiscal policies; the higher inflows in the pessimistic case reflect the higher public borrowing requirement. Short term capital is related to profit remittances to and from the international banking center; to capital flight from neighboring countries; to changes in the domestic circulation of the US dollar; and to non-registered imports, mostly from the Colon Free Zone.

Graph 7.5



INTEREST ON EXTERNAL DEBT
(as a percent of public revenue)
26
25
24
23
22
21
20
19
18
17
16
15
14
80
81
82
83
84
85
86
87
88
89
Source: Annex 1
Base Case
Pessimistic
Optimistic

Table 7.5: BALANCE OF PAYMENTS SCENARIOS
(Yearly averages for the period)

Indicators (US$ million)	Actual	Base Case		Optimistic		Pessimistic	
	1980-83	1984-86	1987-89	1984-86	1987-89	1984-86	1987-89
XGNFS a/	1640	1948	2660	1996	2997	1873	2446
MGNFS b/	1704	1662	2229	1724	2657	1611	2032
Resource Balance	-64	286	431	272	340	262	414
Factor Payments (net) c/	-238	-296	-326	-294	-302	-298	-356
Net Current Trans.	26	35	43	35	43	35	43
Current Account Balance	-276	26	148	13	80	-2	101
Net Medium and Long Term Capital d/	305	184	171	140	81	224	304
Net short term Capital e/	-29	-210	-319	-143	-161	-222	-405

a/ Exports of goods and non factor services.
b/ Imports of goods and non factor services.
c/ Interest on medium and long term debt, and net receipts by the international banking sector.
d/ Net private and official borrowing by the public sector plus direct foreign investment.
e/ Including IMF, capital not elsewhere identified and net errors and ommissions.

Source: Annex I.

D. Implications of the Economic Projections

7.22 The projections indicate that the Panamanian economy is highly sensitive to government policies regarding trade management, the incentive structure, public sector efficiency and relative price signals.

7.23 Export expansion of the goods sectors is now vital. The projections show that continued reliance on the service sector alone will not generate sufficient growth to absorb the rising labor force, even under favorable international conditions. This requires a reversal of the current structure of incentives as shown in Chapters IV and V. The current bias towards import substituting activities for a small, protected market must be reversed, and exporting must be made at least as profitable. This can most easily be accomplished by a general opening of the economy to international competition, thereby permitting entrepreneurs to obtain raw materials and intermediate goods at close to international prices. Indeed, those economies that have tried to graft an efficient export sector onto a virtually unchanged import substituting one have not met with much success. This is because the high costs and inefficiencies in the protected parts of the economy inevitably erode the competitiveness of the exporters. By contrast, in many countries where general open economy policies have been followed, the results have far exceeded the expectations of the policies' most enthusiastic advocates. Countries such as Singapore and Korea achieved real GDP growth of about 10 percent per annum for over a decade. Their economies were transformed from sluggish, high cost, inward-looking ones into vibrant, rapid growth, export-oriented, industrial societies within two decades. They also moved rapidly from high unemployment to full employment conditions. Other success stories were similar. This is not to say that success is guaranteed; on the contrary, an export-oriented, market-based strategy is by definition a step into the unknown. But experience elsewhere, particularly in small economies with a powerful entrepot tradition to build upon, indicates that it is the best way to break out of the vicious circle of high cost and stagnation.

7.24 To become a successful exporter, however, it is not enough to restructure incentives. All the inefficiencies and sources of high cost which pervade the economy must be addressed if the goods sectors are to compete internationally. Here a distinction may be made between non-tradable and tradable goods and services. Among the non-tradables, the cost of basic public services such as electricity, water and telecommunications must be brought down. Since this cannot be done by direct subsidies, due to fiscal constraints, it must be tackled through reducing the operating costs of the entities concerned. Similarly, the cost of export-related services such as the ports and land transportation needs to be reduced. This can be achieved through improvements in infrastructure and equipment, increasing operating efficiency through concessions to the private sector under competitive conditions, and through institutional reforms aimed at ending restrictive practices which pass high costs onto the user.

7.25 In the case of tradable goods, examples abound of the Panamanian economy paying very high prices for staple goods, which inevitably adds to upward cost pressures. Cement is produced domestically at over twice world costs and sold to the consumer at three times world prices; farmers pay a high price for fertilizers and chemical pest controls; the ex-refinery price of most petroleum products is about a third above that of other refineries in the Caribbean area; the high cost and inefficient agricultural and agroindustrial sectors, subsidized through a high support price policy, lead to upward pressure on urban wages, reinforcing labor market rigidities and high social security charges; and local industry, protected from outside competition, sells most of its products at prices well in excess of world levels. Ultimately, these costs can only be brought down through exposing the sectors concerned to international competition. Clearly this needs to be done gradually to minimize the disruptive impact on employment; however, it must be done if the economy is to become competitive. Panama can no longer afford the luxury of subsidizing these activities.

7.26 The formidable array of bureacratic controls on prices and marketing, particularly in agriculture and agroindustry, also needs to be dismantled since at present it constitutes a barrier to potential exporters. As shown in Chapter IV, exporters have to pass through some eight or ten complex administrative procedures in the case of many product groups; often the only legal way to overcome these barriers is to export through the state marketing institute, IMA.

7.27 The principal driving force of future expansion is investment. However, it must be emphasized that the quality of the investment is much more important than its quantity. Panama has had very high levels of investment, averaging over 20 percent of GDP since 1970. In a more conducive policy environment, some of the public sector investments, such as those in power, water supply, and transportation, might have laid the foundations for a more dynamic economy. However, much investment in productive facilities was concentrated in the state sector, while a significant proportion of private investments was geared to the local market in activities heavily subsidized, directly or indirectly, by the State. Productivity of capital was consequently low. New private investment needs to be encouraged in export-oriented, employment intensive activities, with much higher real output per unit of capital spent.

7.28 To achieve this, the investment climate must be improved. This is not only a matter of an appropriate legal framework and incentives; confidence must be engendered in the permanence of the new policy and the new "rules of the game". This can only be inculcated through public commitment at the highest political level, and through a well planned campaign of "public education" showing the necessity for, and advantages of, the new policy framework. For local investors even this may not be enough, at least initially. Efforts to attract foreign investment through the National Investment Council and similar initiatives must therefore be intensified. Successful investment for export requires not merely capital but entrepreneurship, technology and management skills as well. This is particularly so for the relatively high value products on which Panama will have to concentrate, given its comparatively high labor costs.

7.29 In order for the economy to benefit fully from increased private investment, two difficult political issues must be tackled. The first is price controls. They not only lead directly to the misallocation of resources; their administration inevitably spreads into control of exports and imports, thereby impeding expansion of export-related activities. Fear is sometimes expressed of the impact of price control removal on the cost of living. In fact, currently, most price controls in Panama are floor rather than ceiling prices and are mechanisms of subsidizing producers by consumers. This does not prevent them from being a powerful disincentive to private investment: when circumstances change, the controls may once again reduce profitability and decrease entrepreneurial ability to adjust to changing market conditions. Where the removal of price controls may be expected to lead to the abuse of private monopoly power, this would be most appropriately addressed through opening up the market to competition from imports.

7.30 Second, the projections clearly demonstrate that even good export-led growth rates would be unlikely to prevent employment from rising in the absence of measures to tackle labor market rigidities. The optimistic scenario assumes that fundamental reforms to the Labor Code are made, and that there are no further real increases in social security contributions; this would increase marginal employment elasticities to levels closer to those of the 1960's. Only in these circumstances does rapid GDP growth lead to a declining trend in the unemployment rate. Without such measures, unemployment would not fall, even with real annual growth of around 7 percent.

7.31 For the public sector, the projections confirm the analysis of Chapter III. Public savings performance must be substantially improved, principally through reduced costs and increased efficiency, while investment must be carefully restricted to support private sector initiatives. Heavy current obligations to social security beneficiaries will likely materialize in the medium term, while the Authorities will wish to increase outlays in the social sectors, particularly low cost housing. To enable this, strict control must be maintained on all expenditures. The burden of the State on the rest of the economy must be reduced to facilitate export-led expansion fuelled by private sector investment.

PANAMA

Structural Change and Growth Prospects

Volume II: The Annexes

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PANAMA

STRUCTURAL CHANGE AND GROWTH PROSPECTS

MACROECONOMIC PROJECTIONS

ANNEX I

Macroeconomic Projections

A. Introduction

1. This Annex describes the model developed for the macroeconomic projections used in this report. An analytical framework is developed for the economy, and a base case scenario discussed. This seeks to project the various economic aggregates under the assumption that changes in policy are sufficient to sustain a moderate expansion, while the external environment is relatively buoyant.

B. The Analytical Framework

2. The analytical framework uses a consistent set of data for 1980. The principal accounts are given at Appendix A, and the details of the model at Appendix B. This is then developed into a social accounting matrix (SAM) for 1980. The choice of 1980 permits the inclusion of the effect of incorporating the Canal Zone into the GDP and it allows three years for tuning the model. The SAM structure is given in Table 1. It has the following principal features:

7 sectors - agriculture; mining and manufacturing; construction; electricity, gas, water, transport and communication; banking and real estate; other services; and Colon free zone and Canal areas.

2 institutions - government (non-financial public sector1/) and private.
2 capital accounts - government (public) and private.
2 financial acounts - domestic and foreign.

3. The data in the SAM framework is estimated. In general, the aggregates are close to the official national account figures, while external accounts are close to the IMF balance of payment values. The biggest difficulty arose in the coefficients for the input-output structure. This was developed from a variety of sources. There are a number of estimates for gross output for agriculture and manufacturing. These together with the sectoral final demand estimates gave intermediate values. The distribution of these intermediate values was achieved through the use of input-output ratios for other countries such as Brazil and Colombia.

4. The model was developed from the basic SAM. It is primarily a demand driven Keynesian structure while the closure is by financing the deficit of the consolidated public sector. A demand driven model is justified by the current existence of a significant amount of excess capacity in the economy. The deficit of the consolidated public sector is the key stability variable. The model can be readily modified to include various supply side effects or to investigate alternate closures.

1/ The non-financial public sector includes the operations of the central Government, plus the decentralized and autonomous agencies except the National Bank of Panama and the Savings Bank.

5. A simplified schematic is shown in Table 2 which gives the general flow of the model. The model solves one year at a time and is non recursive. All exogenous values are entered for the duration of the projection. In particular real investment, public consumption, export and import prices and export quantities are given together with the historic debt situation.

6. The model then makes a first estimate of private consumption based on last year's income and prices. Other exogenous components of final demand are then added to provide an estimate of sectoral real output. A generalized Leontief system then provides a first estimate of gross physical output. This in turn generates an estimate of required sectoral imports.

7. The model then proceeds to the price module. Export, import and factor prices give an estimate of domestic prices. This in turn gives value added and labor demand estimates. From the value added one obtains an estimate for income. After various adjustments for direct taxes, social security payments, and savings, the model then proceeds to a second iteration to recompute consumption. The process continues until the savings generated are sufficient to finance the anticipated level of investment.

8. The model then proceeds to update the current account, labor and debt statutes. The overall deficit of the consolidated public sector must then be financed. It is assumed that this level of finance will be forthcoming. The model then proceeeds to the next year.

9. Because of prevailing uncertainties, the model was used to project three alternative scenarios: a base, optimistic, and pessimistic case. These are explained in Chapter VII of the main text. The resulting projections are shown in tables 3-5 of this Annex.

PANAMA
Table 1 : Macroeconomic Balances, 1980 (estimates)
(millions of balboas)

Expenditure	Production									Factors				Institutions		Export Price			Capital			Final	Financial		Gross
Receipts	AGR	M.M.	CON	EGW	B/RE	O.S.	CFZ	Intermediate	Investment	Wages	Profits	Depr.	Tot	Private	Govt.	Diff.	CAT	ROW	IP	IG	SF	Demand	DOM	FOR	Output
PRODUCTION																									
1. Agriculture	30.1	214.4	–	–	–	–	17.1	261.6						202.1	13.2	0	13.8	244.8	–	–		473.9			735.5
2. Mining and Manufacture	83.4	287.0	130.3	92.7	49.9	283.7	37.5	964.5						810.9	13.2	0	7.0	268.6	40.6	24.4		1164.7			2129.2
3. Construction	–	–	20.1	–	–	–	–	20.1						–	–	–	–	–	319.1	183.9		503.0			523.1
4. EGWTC	43.5	178.2	21.7	46.4	12.5	132.1	17.1	451.5						208.0	65.9	–	–	–	–	–		273.9			725.4
5. Banking/ Real Estate	–	44.3	–	–	25.0	261.6	41.3	372.2						239.2	13.2	–	–	–	–	–		252.4			624.6
6. Other Services	–	10.0	43.5	11.7	25.0	10.0	17.1	117.3						820.2	352.8	–	–	–	–	–		1173.0			1290.3
7. Colon Free Zone/s	17.1	28.2	43.5	11.7	12.5	17.1	40.7	170.8						–		–	–	1038.4	–	–		1038.4			1209.2
Intermediate	174.1	762.1	259.1	162.5	124.9	704.5	170.8	2358.0						2280.4	458.3	–0	20.8	1551.8	359.7	208.3		4879.3			7237.3
Investment Income														–99.5	260.0			2107.3							2267.8
FACTORS																									
Wages/Profits	297.5	247.7	242.2	421.7	458.4	304.0	783.5	2755.0								0									2755.0
Depreciation	26.8	22.3	21.8	38.0	41.3	27.4	70.7	248.3																	248.3
	324.3	270.0	264.0	459.7	499.7	331.4	854.2	3003.3																	3003.3
INSTITUTIONS																									
Private											27550.	248.3	3003.3		197.0										3200.3
Government																									
Transfers	–	–	–	–	–	–	–	–										71.1							71.1
Non tax revenue	–	–	–	–	–	254.4	–	254.4									–20.8								233.6
Direct tax	–	–	–	–	–	–	–	–						240.6											240.6
V-A	–	88.6	–	–	–	–	–	88.6																	88.6
V-A (imports)	12.6	53.5	–	5.5	–	–	–	71.6											11.4	5.6					88.6
Import/export	11.1	47.4	–	4.8	–	–	–	63.3										12.6	10.1	5.0					91.0
Soc. Sec.														219.1											219.1
Gov. Rev Total	23.7	189.5	–	10.3	–	254.4	–	477.9																	1032.6
ROW	213.4	907.6	–	92.9	–	–	184.2	1398.1	2267.8					58.4	–				194.7	95.1	289.8				4014.1
DIRECT INPUTS	561.4	1367.1	264.0	562.9	499.7	585.8	1038.4	4879.3											575.9	314.0					
CAPITAL																									
Savings private														501.3									322.9	–59.2	765.0
Savings government															117.3								–30.9	227.6	314.0
Savings foreign																		271.3							
FINANCIAL																									
Domestic																			189.1		102.9				292.0
Foreign																					168.4				168.4
GROSS OUTPUT	735.5	2129.2	523.1	725.4	624.6	1290.3	1209.2	7237.3	2267.8		2755.0	248.3	3003.3	3200.3	1032.6	0	0	4014.1	.765.0	314.0	271.3		292.0	168.4	

DMC/bmd
07/19/84

Table 2 : SIMPLIFIED SCHEMATIC OF MODEL

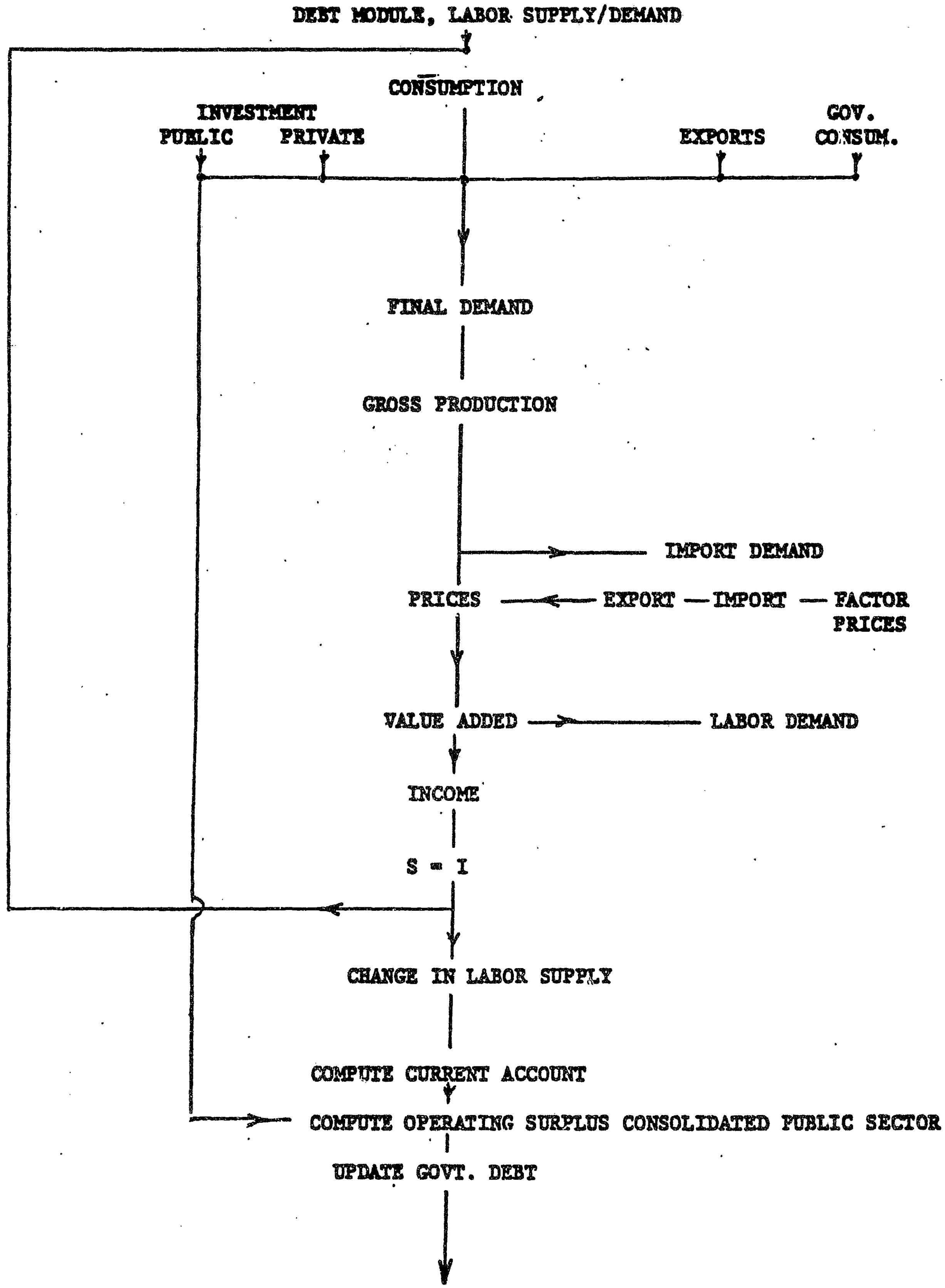

Table 3: BASE CASE PROJECTIONS, 1980-1989

Account	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
National Accounts										
US$ million (in constant 1980 prices)										
GDP at market prices	3505.4	3686.8	3859.3	3865.0	3776.1	3756.3	3837.1	3977.6	4126.3	4249.7
Consumption, private	2280.6	2272.7	2229.0	2256.8	2241.7	2253.9	2278.6	2361.7	2449.8	2530.2
Consumption, government	458.3	477.1	565.0	568.4	542.8	486.0	495.8	515.7	536.5	558.0
Investment, private	575.9	707.5	493.1	566.2	487.3	463.0	460.2	467.1	476.4	488.4
Investment, government	314.0	359.4	428.3	353.5	281.3	256.5	263.4	266.1	268.7	271.5
Annual Real Growth Rates										
(Percent per annum)										
GDP	a/	5.1	4.6	0.1	-2.3	-0.5	2.1	3.6	3.7	2.9
Agriculture		2.5	0.9	3.0	-1.4	0.3	2.1	2.7	2.8	1.9
Industry		0.0	3.2	-2.8	-1.5	-0.4	1.9	3.1	3.5	0.5
Construction		12.4	6.1	-16.7	-19.2	-9.2	-0.2	0.9	1.2	1.6
Utilities and transport		0.5	3.6	-0.7	-2.4	-1.8	1.3	3.8	3.9	2.8
Financial services		0.3	3.0	1.9	-1.8	-1.3	1.3	4.3	4.4	3.8
Commerce		1.0	10.0	5.8	-1.4	-2.5	1.6	4.1	4.1	3.8
Other services		13.8	6.7	1.9	1.1	3.3	3.7	3.9	3.9	3.8
Consumption		0.3	1.6	1.1	-1.4	-1.6	1.2	3.7	3.7	3.4
Investment		19.9	-4.2	-9.9	-16.4	-6.3	0.5	1.3	1.6	1.9
Export GNFS		7.1	8.1	3.4	2.3	3.4	3.9	3.9	3.9	1.6
Import GNFS		7.0	-2.0	-0.7	-3.6	-0.4	2.1	3.1	3.2	1.6
Balance of Payments										
(US$ millions in current prices)										
Export GNFS	1564.4	1631.0	1677.0	1686.5	1777.5	1987.1	2079.9	2355.3	2468.2	2957.4
Import GNFS	1687.8	1809.4	1713.2	1604.4	1570.6	1667.5	1745.7	1972.3	2031.2	2485.7
Resource balance	-123.4	-178.4	-36.2	82.1	206.9	319.6	334.2	383.0	436.9	471.7
Net factor payments	-160.5	-215.2	-313.3	-263.1	-291.7	-294.1	300.6	-311.2	-325.7	-341.4
Net transfers	12.4	29.1	30.1	32.0	33.1	35.7	35.7	38.9	42.4	46.2
Current account	-271.2	0364.5	-319.3	-149.0	-51.8	60.9	69.3	110.7	153.6	176.6
Net MLT foreign borrowing	231.8	172.8	502.8	312.6	275.1	199.6	228.4	226.1	224.8	240.5
Gross borrowing requirement	196.7	221.5	454.9	264.1	226.8	149.0	175.2	174.2	160.1	178.8
Other capital flows b/	39.4	191.7	-183.5	-163.6	-223.3	-260.5	-297.7	-336.8	-378.4	-417.1
Government Sector										
(US$ millions in current prices)										
Current revenue	1032.6	1178.4	1294.2	1386.8	1408.5	1474.3	1565.2	1733.0	1920.6	2111.1
Current expenditure	915.3	1029.9	1277.5	1260.9	1316.6	1318.5	1417.5	1553.4	1707.4	1878.4
Savings	117.3	148.6	16.7	125.9	91.9	155.8	147.7	179.6	213.2	232.7
Capital expenditures	314.0	370.1	471.6	390.3	380.7	304.8	322.8	349.8	379.3	411.5
Consolidated deficit	196.7	221.5	554.9	264.1	226.8	149.0	175.2	170.2	166.1	178.8
Employment (thousands)										
Employment	n.a	n.a	561.1	565.1	558.3	553.6	558.6	569.3	580.5	589.3
Active labor force	609.0	615.0	621.0	627.0	648.9	671.6	694.4	718.1	742.5	767.0
Unemployment rate (percent)	n.a	n.a	9.6	9.8	13.9	17.5	19.5	20.7	21.8	23.1

a/ The model produces output for years beginning in 1980. Therefore, growth rates from 1979 to 1980 are not calculated.
b/ Including errors and omissions.

Table 4: OPTIMISTIC CASE PROJECTIONS, 1980-1989

Account	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
National Accounts										
US$ million (in constant 1980 prices)										
GDP at market prices	3505.4	3686.8	3859.3	3865.7	3812.3	3817.3	4151.2	4620.9	4993.3	5399.3
Consumption, private	3380.6	2272.7	2229.0	2256.9	2260.8	2288.2	2524.3	2905.4	3134.3	3383.4
Consumption, government	458.3	477.1	565.0	568.4	542.8	486.0	503.4	539.3	578.0	619.6
Investment, private	575.9	707.5	593.1	566.2	487.2	493.2	566.1	630.3	683.4	743.6
Investment, government	314.0	359.4	428.3	353.5	281.3	256.5	274.9	289.8	305.8	322.8
Annual Real Growth Rates										
(Percent per annum)										
GDP	a/	5.1	4.6	0.1	-1.3	0.1	8.7	11.3	8.0	8.1
Agriculture		2.5	0.9	3.2	-1.1	0.5	6.0	7.2	5.7	5.8
Industry		0.0	3.2	-2.8	-1.0	0.1	8.6	11.4	7.3	7.4
Construction		12.4	6.1	-16.7	-19.2	-5.7	12.3	12.4	12.5	12.6
Utilities and transport		0.5	3.6	-0.7	-1.7	-1.1	9.7	14.1	8.4	8.4
Financial services		0.3	3.0	1.9	-0.8	-0.6	10.9	16.2	9.3	9.3
Commerce		1.0	10.0	5.8	-0.8	-2.0	9.2	13.7	8.7	8.7
Other services		13.8	6.7	1.9	2.9	3.4	7.2	7.4	7.1	7.1
Consumption		0.3	1.6	1.1	-0.7	-1.0	9.1	13.7	7.7	7.8
Investment		19.9	-4.2	-9.9	-16.4	-2.5	12.3	9.4	7.4	7.8
Export GNFS		7.1	8.1	3.4	3.4	3.4	6.9	7.0	7.0	7.0
Import GNFS		7.0	-2.0	-0.7	-3.1	0.7	8.8	9.4	6.1	6.2
Balance of Payments										
(US$ millions in current prices)										
Import GNFS	1687.7	1809.4	1713.1	1604.8	1580.3	1688.0	1895.2	2274.9	2647.2	3084.3
Export GNFS	1564.4	1630.9	1676.9	1687.0	1802.0	2015.1	2171.2	2531.5	2953.0	3446.6
Resource balance	-123.3	-178.4	-36.1	82.1	222.5	317.1	275.9	256.5	305.7	362.2
Net factor payments	-160.5	-215.2	-313.2	-263.0	-291.7	-293.1	-296.6	-294.4	-303.5	-309.9
Net transfers	12.7	29.1	30.1	31.9	33.0	35.6	35.6	38.9	42.4	46.2
Current balance	-271.1	-364.5	-319.2	148.8	-36.1	59.6	15.0	1.0	44.6	98.5
Net MLT foreign borrowing	231.8	172.8	502.8	312.6	275.6	178.5	128.5	183.1	144.9	91.3
Gross borrowing requirement	196.7	221.5	454.9	264.4	217.3	127.9	75.2	127.2	86.2	30.4
Other capital flows b/	39.4	191.7	-183.5	-163.6	-223.3	-238.1	-140.6	-184.2	-189.6	-189.8
Government Sector										
(US$ millions in current prices)										
Current revenue	1032.6	1178.5	1294.2	1386.9	1418.0	1494.3	1687.9	1830.1	2103.6	2419.8
Current expenditure	915.3	1029.9	1277.5	1260.9	1316.6	1317.3	1424.2	1571.0	1751.6	1951.7
Savings	117.3	148.6	16.7	126.0	101.4	177.0	263.7	259.1	352.0	468.1
Capital expenditures	314.0	370.1	471.6	390.3	318.7	304.9	338.9	386.3	438.2	498.5
Consolidated deficit	196.7	221.5	454.9	264.4	217.3	127.9	75.2	127.2	86.2	30.4
Employment (thousands)										
Employment	n.a	n.a	561.1	565.1	560.4	556.7	587.1	631.9	665.5	701.7
Labor force	609.0	615.0	621.0	627.0	648.9	671.6	694.4	718.1	724.5	767.0
Unemployment rate (percent)	n.a	n.a	9.6	9.8	13.6	17.1	15.4	12.0	10.3	8.5

a/ The model produces output for years beginning in 1980. Therefore, growth rates from 1979 to 1980 are not calculated.

b/ Including errors and omissions.

Table 5: PESSIMISTIC CASE PROJECTIONS, 1980-1989

Account	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
National Accounts										
US$ million (in constant 1980 prices)										
GDP at market prices	3505.4	3686.8	3859.3	3863.6	3741.7	3627.7	3636.9	3674.0	3744.3	3816.8
Consumption, private	2280.6	2278.7	2229.0	2256.0	2223.5	2183.3	2170.4	2196.3	2242.4	2290.0
Consumption, government	458.3	477.1	565.0	568.4	542.8	486.0	496.2	501.1	505.8	510.7
Investment, private	575.9	707.5	593.1	566.2	487.3	438.6	394.7	355.3	355.4	355.6
Investment, government	314.0	359.4	428.3	353.5	281.3	256.5	263.4	266.1	268.7	271.5
Annual Real Growth Rates										
(Percent per annum)										
GDP	a/	5.1	4.6	0.1	-3.1	-3.0	0.2	1.0	1.9	1.9
Agriculture		2.5	0.9	2.9	-1.6	-0.5	1.0	1.4	1.7	1.7
Industry		0.0	3.2	-2.9	-2.0	-2.3	0.2	1.0	1.9	1.9
Construction		12.4	6.1	-16.7	-19.2	-12.1	-5.8	-5.5	0.0	0.0
Utilities and transport		0.5	3.6	-0.8	-3.1	-4.0	-0.4	1.0	2.0	2.0
Financial services		0.3	3.0	1.9	-2.6	-3.9	-0.6	1.0	2.0	2.0
Commerce		1.0	10.0	5.8	-1.9	-4.3	0.0	0.8	1.5	1.5
Other services		13.8	6.7	1.9	-0.6	-0.3	2.1	2.2	2.4	2.4
Consumption		0.3	1.6	1.0	-2.0	-3.5	-0.1	1.1	1.8	1.9
Investment		19.9	-4.2	-9.9	-16.4	-9.5	-5.3	-5.5	0.4	0.4
Export GNFS		7.1	8.1	3.3	0.7	0.5	2.2	2.2	2.3	2.3
Import GNFS		7.0	-2.0	-0.8	-4.2	-2.7	-0.3	0.0	1.7	1.8
Balance of Payments										
(US$ millions in current prices)										
Import GNFS	1687.7	1809.4	1713.1	1603.7	1561.3	1618.3	1653.6	1813.7	2023.4	2258.1
Export GNFS	1564.4	1630.9	1676.9	1685.1	1753.4	1904.3	1961.9	2186.1	2436.7	2716.6
Resource balance	-123.3	-178.4	-36.1	81.3	192.0	286.0	308.2	372.4	413.3	458.5
Net factor payments	-160.5	-215.2	-313.2	-263.0	-291.8	-295.6	-306.8	-326.7	-354.7	-387.3
Net transfers	12.7	29.1	30.1	21.9	33.0	35.6	35.6	38.9	42.4	46.2
Current balance	-271.1	-364.5	-319.2	-149.7	-66.6	26.0	37.1	84.5	100.9	117.4
Net MLT foreign borrowing	231.8	172.8	502.8	312.6	284.1	238.9	300.6	333.6	361.4	394.0
Gross borrowing requirement	196.7	221.5	454.9	264.4	235.9	188.3	247.3	277.7	302.7	332.4
Other capital flows b/	39.4	191.7	-193.5	162.8	-217.5	265.0	-337.7	-418.2	-462.4	-511.5
Government Sector										
(US$ millions in current prices)										
Current revenue	1032.6	1178.5	1294.2	1386.9	1399.6	1436.3	1499.9	1619.1	1763.9	1922.5
Current expenditure	915.3	1029.9	1277.5	1260.9	1316.6	1319.8	1424.3	1546.9	1687.2	1843.4
Savings	117.3	148.6	16.7	126.0	83.0	116.5	75.6	72.2	76.7	79.1
Capital expenditures	314.0	370.1	471.6	390.3	318.8	304.9	322.9	349.9	379.4	411.5
Consolidated deficit	196.7	221.5	454.9	264.4	235.8	188.4	247.3	277.7	302.7	332.4
Employment (thousands)										
Employment	n.a	n.a	561.1	565.0	556.3	545.6	545.3	547.4	552.2	557.1
Labor force	609.0	615.0	621.0	627.0	648.9	671.6	694.4	718.1	742.5	767.0
Unemployment rate (percent)	n.a	n.a	9.6	9.8	14.2	18.7	21.4	23.7	25.3	27.3

a/ The model produces output for years beginning in 1980. Therefore, growth rates from 1979 to 1980 are not calculated.
b/ Including errors and omissions.

APPENDIX A: BASIC DATA ACCOUNTS FOR SOCIAL ACCOUNTING MATRIX

This appendix summarizes the principal accounts used in developing a consistent data base for 1980. Adjustments were made to suit changes in definitions in some instances.

Table A.1: CONSOLIDATED NATIONAL ACCOUNTS - 1980
(millions of US$ at current prices)

1.	Consumption	C	2739.8
	Private	PC	(2280.7)
	Public	GC	(458.3)
2.	Gross Investment	I	889.9
3.	Exports of goods and services	E	1564.4
4.	Imports of goods and services	M	1687.8
5.	Gross domestic product (at market prices)	GDPMP	3505.5
6.	Factor service income (net)	FSY	-147.8
7.	Gross national product (5 + 6)	GNP	3357.7
8.	Indirect taxes less subsidies *		501.8
9.	Gross domestic product (5 - 8)	GNPFC	3003.7
10.	Depreciation		248.3
11.	Net domestic product (9 - 10) (factor cost)	NNPFC	2755.0

* This figure is obtained from government revenues (1032.6) less direct taxes:social security receipts and transfers (530.8) -- see Table A.4.

Table A.2: PRIVATE SECTOR a/
1980 - Millions U.S.$

RECEIPTS		
Factors	2755	
Capital depletion	748.3	
Net current transfers	197.0	
INCOME	3200.3	
EXPENDITURES		
Agriculture	202.1	
Manufacture	810.9	
Construction	0	
elec., gas, water, transp., comm.	208.0	
Banking, real estate	239.2	
Services	820.2	
Private Consumption		2280.4
Direct Tax		240.6
Social Security		219.1
Imports		58.4
Savings Private		501.3
TOTAL		3200.3

a/ Includes households and corporations.

Table A.3: PRIVATE SECTOR a/
CAPITAL/FINANCIAL ACCOUNT

SOURCES OF FUND	
Savings Private	501.3
Borrowing Domestic Banking	322.9
Borrowing from Abroad	-59.2
	765.0
USES	
Investment	575.9
Change in Liquidity	189.1
	765.0

a/ Excludes consolidated non-financed public sector, i.e., includes households and private corporations.

Table A.4: OPERATIONS OF THE NON-FINANCIAL PUBLIC SECTOR 1980 - MILLION U.S.$

REVENUE	
Indirect Taxes	268.2
exports tax	(12.6)
import tax	(78.4)
V-A tax	(177.2)
Direct Taxes	240.6
Social Security	219.1
Transfers from rest of world	71.1
Non tax government revenues	254.4
Export subsidy (CAT)	-20.8
	1032.6
EXPENDITURE	
Goods, services, investment expenditure	718.3
Transfers (Soc. Sec.)	197.0
Government savings	117.3
	1032.6

Table A.5: GOVERNMENT (CENTRAL) - CAPITAL/FINANCIAL ACCOUNT

SOURCES OF FUNDS	
Saving government	117.3
Borrowing domestic banking	-30.9
Borrowing from abroad	227.6
	314.0
USE OF FUNDS	
Investment	314.0

Table A.6: INVESTMENT
1980 - MILLION U.S.$

Private	575.9
Domestic	(359.7)
Foreign	(216.2)
Government	314.0
Domestic	(208.3)
Foreign	(105.7)
	889.9
Savings Private	501.3
Savings Government	117.3
Savings Foreign	271.3
	889.9

Table A.7: BALANCE OF PAYMENTS
1980 Million RD$

Exports	
Merchandise	526
Transportation	396.2
Investment income	2107.3
Services	462.5
Colon Free Zone	(218.9)
Rest of World	(243.6)
Other	179.7
Transfers	71.1
Deficit	271.3
	4014.1
Imports	
Merchandise	1342.3
Freight and Insurance	161.4
Investment income	2267.8
Services	63.7
Other	120.5
Transfers	58.4
	4014.1

APPENDIX B: FORMAL STATEMENT OF MACRO MODEL

This appendix gives a list of principal equations and the variables used in the model.

EXPORTS

Constant $ by commodity

$$X_i = X_i\,(-)\,(1 + GX_i) \qquad i = 1, \ldots, 9$$

Current $ by commodity

$$EX_i = X_i \;\; XPI_i \qquad i = 1, \ldots, 9$$

Constant $ by sector

$$XG_k = \sum_{i=1}^{10} XMAT_{ki}\, X_i \qquad k = 1, \ldots, 7$$

Current $ by sector

$$EXG_k = \sum_{i=1}^{10} XMAT_{ki}\, EXP_i \qquad k = 1, \ldots, 7$$

Exports Goods

$$EG = \sum_{i=1}^{9} EXP_i$$

Exports Total

$$EXP = EG + INDTXE + INVIC + GTROW + SSEXP$$

IMPORTS

Price indices by sector in current $

$$MPIS_k = \sum_{i=1}^{6} MMAT_{ik} \; MPIR_i \qquad k = 1, \ldots, 9$$

Imports by sector in constant $

$$MPR_k = MPR_k \; GROP_k \qquad k = 1, \ldots, 7$$

Imports of capital goods in constant $

$$MPR_i = MPR_i \; (-) \; (1 + GMPRV_i) \qquad i = 8.9$$

Imports by sector in current $

$$MPRV_k = MPR_k \; MPIS_k \qquad k = 1, \ldots, 5$$

Imports by commodity in constant $

$$M_i = \sum_{k=1}^{6} MMAT_{ik} \; MPR_k \qquad k = 1, \ldots, 6$$

Total imports of goods $

$$IMPS = \sum_{i=1}^{9} IMP_i$$

Imports Total

$$MP = IMPS + INVM + TPRW$$

CONSUMPTION

Government constant/current

$$GC_i = GC_i\ (-)\ (1 + GGC_i) \qquad i = 1, \ldots, 7$$

$$CGC_i = GC_i\ PS_i \qquad i = 1, \ldots, 7$$

Total

$$CGCT = \Sigma\, CGC_i$$

Government and private

$$C_i = PC_i + GC_i \qquad i = 1, \ldots, 4$$

INVESTMENT

Domestic Private constant/current

$$IPD_i = IPD_i\ (-)\ (1 + GIPD_i) \qquad i = 1, \ldots, 7$$

$$CIPD_i = IPD_i\ PS_i \qquad i = 1, \ldots, 7$$

Domestic Government constant/current

$$IG_i = IG_i\ (-)\ (1 + GIG_i) \qquad i = 1, \ldots, 7$$

$$CIDG_i = IGD_i\ PS_i \qquad i = 1, \ldots, 7$$

Imports

$$CM_i = M_i \; MPIS_i \qquad i = 8,\ 9$$

Total by sector

$$ID_i = IPD_i + IG_i \qquad i = 1,\ \ldots,\ 7$$

Total

$$CIPT = \sum_{i=1}^{7} CIPD_i + CM_8$$

$$CIGT = \sum_{i=1}^{7} GIDG_i + CM_9$$

$$CIT = CIPT + CIGT$$

FINAL DEMAND

$$FD_i = C_i + ID_i + EXG_i \qquad i = 1,\ \ldots,\ 7$$

GROSS PRODUCTION

$$GROP_i = \sum_{j=1}^{4} A_{ij} \; GROP_j + FD_i \qquad i = 1,\ \ldots,\ 7$$

FACTOR PRICES

$$FACP_i = FACP_i\,(-)\,(1 + GFACP_i) \qquad i = 1,\ \ldots\ 7$$

PRICES

Current $

$$PS_j = \sum_{i=1}^{7} A_{ij}\, PS_i + MPR_j\, MPIS_j\, (1 + MT_j)$$

$$+ VS_j\, FACFP_j\, (1 + VATC_j + DPR_j) \qquad j = 1, \ldots, 7$$

$$+ GRC_j$$

VALUE ADDED

$$YNET_i = VS_i\, FACP_i\, GROP_i \qquad i = 1, \ldots, 7$$

NET DOMESTIC PRODUCT AT FACTOR COST

$$YNE = \sum_{i=1}^{7} YNET_i$$

$$TDIF = \sum_{j=1}^{7} (PW_j - PS_j)\, XS$$

$$NNPFC = YNE + TDIF$$

$$DEPR = \sum_{j=1}^{7} DEPR_i\, YNET_i$$

$$GNP = NNPFC + DEPR$$

GDP AT FACTOR COST

$$PDPFC = NDPFC + DEPR$$

HOUSEHOLD INCOME

$$HINC = NNPFC + DEPR + GTPS$$

Disposable Income

$$HINCD = HINC\ (1 - DT)$$

Household Saving

$$SH = S.HIND$$

Social Security

$$SSP = SSC.\ HINC$$

Expenditure on goods

$$PCV = HINC - DT.\ HINC$$

$$- S.\ HIND$$

$$- S.\ SSC\ HINC$$

$$- INVD$$

$$- PT\ ROW$$

Base Demand

$$PCVO = \sum_{i=1}^{7} PCB_i\ PS_i$$

Demand by Category (Sector) in Constant Pesos

$$PC_i = PCB_i + SHS_i\ (PCV - PCVO)/PS_i \qquad i = 1, \ldots, 7$$

GOVERNMENT REVENUE - CURRENT PESOS

Import Taxes

$$INDTXM = \sum_{j=1}^{7} MDVT_j \; MPIS_j \; MPR_j + M_8 \; MDVT_8 + M_9 \; MDVT_9$$

Export Tariff

$$INDTXE = XT \; EG$$

Value Added Taxes

$$VATX = \sum_{I=1}^{7} VATC_i \; YNET_i$$

Indirect Taxes

$$INDTX = INDTXM + INDTXE + VATX$$

Non Tax Government Revenue

$$NTGREV = \sum_{j=1}^{7} GRC_j \; GROP_j$$

Direct Taxes

$$DRTX = DT \; HNC + SSC \; HINC + NT \; GREV$$

Export Price Differential

$$EXPDIF = \sum_{I=1}^{7} XDI_I$$

Total Revenue

$$GREV = INDTX + DRTX + EXPDIF$$

GOVERNMENT EXPENDITURE - CURRENT $

Consumption

Goods and Services

$$CGC = \sum_{i=1}^{7} CGC_i$$

Transfers

$$GT = GTIV + GTPS$$

Total

$$GEXD = CGC + GT$$

Government Saving

$$SAVG = GREV - GEXD$$

Consolidated Public Sector Expenditure

$$CPSEXP = GEXD + CIGT$$

Surplus

$$OVCSP = GREV - CPSEXP$$

Foreign Saving

$$SF = MP - EXP$$

Private Saving

SAVP = S HINCD

SAVINGS

Total

SSS = SAVP + SAVG + SAVF

Gross National Saving

GNS = SAVP + SAVG + NTFSY + NTCTR

CURRENT ACCOUNT IN CURRENT U.S.$

Factor Service Payments

FSP = INTMLT + INTSTP + DIIP + WRKPMP + OTHFSP

Factor Service Receipts

FSR = INTRES + INTSTR + WRKRMR + OTHRSR

Interest on Reserves

INTRES = i * RESLEV (-)

Exports of Goods and Services

EXPGS = EXPGNF + FSR

Imports of Goods and Services

IMPGS = IMPGNF + FSP

Current Balance

CURBAL = EXPGS - IMPGS + NETCTR

MEDIUM AND LONG-TERM DEBT

Net disbursements

NETMLT = DBTMLT - AMTMLT

Debt Service

DSMLT = AMTMLT + INTMLT

Debt Outstanding

DODMLT = DODMLT (-) + DBTMLT - AMTMLT

Debt Outstanding Including Undisbursed

DOUMLT = DOUMLT (-) + COMMLT - AMTMLT

Undisbursed

UNDISB = DOUMLT - DODMLT

Debt Service Ratio

DSR = DSMLT/EXPGS * 100

CAPITAL ACCOUNT

Reserve Level

RESLEV = M/12 * IMPGS

Change in Reserves

CHGRES = - [RESLEV - RESLEV (-)]

Net Available Capital

NETFLW = DBTGRT + NETDFI + NETMLT + SHTERM + NETIMF + CAPNEI + CHRES

Additional Capital Requirement by Government

GAPFIL = - OVCSF - NETFLW

EMPLOYMENT

Labor Force

LABOR = LABOR (-) (1 + GLAB)

Employment by Sector

$EMPLOY_i = EMPLOY_i\ (-)\ (1 + ELAS_i\ GRS_i)$ $\qquad i = 1, \ldots, 7$

Total Employment

$$EMPLOY = \sum_{i=1}^{7} EMPLOY_i$$

Unemployment Rate

UNEMPL = (1 - EMPLOY)/LABOR * 100

PANAMA

STRUCTURAL CHANGE AND GROWTH PROSPECTS

PUBLIC INVESTMENT

ANNEX II

PUBLIC INVESTMENT

Overview

1. The preparation of the public investment program in Panama is the responsibility of the Ministry of Planning and Economic Policy (MIPPE). This Ministry, and not that of Finance, also produces and monitors the current budget. The investment budgets are prepared with a reasonable standard of professional competence, and the institutional framework for the formulation of a coherent investment program is therefore in place. General development policy objectives are detailed on a sector by sector basis, and the total investment requirement for each sector determined accordingly. Estimates of financial requirements are prepared on a project by project basis by each Ministry or agency, but the overall responsibility for matching them with available financial resources belongs to MIPPE. Considerable importance is now attached to the calculation of economic rates of return, and the staff of MIPPE are well versed in the techniques of project appraisal. Controls have been tightened, and rare departures from the MIPPE budget must be approved by the Economic Cabinet, chaired by the Minister of the Presidency. These controls are applied not only to individual Ministries but also to each autonomous entity, while all public borrowing (short, medium and long-term) is now monitored by, and subject to the approval of, the new Director of Public Credit, also in MIPPE. The control of actual expenditures is the responsibility of the Directorate of Public Accounting in the Office of the Comptroller General. Individual expenditures are approved by this Office in coordination with MIPPE and the National Bank.

2. These procedures, which were strengthened in 1983, represent a considerable improvement on past practices. Previously, even if the Government's development program had been theoretically sound, control of investment expenditures was often poor in practice. A number of projects were initiated without economic justification, while others proceeded outside the budgetary process. These latter were frequently financed from the current savings of the entity concerned or from borrowed commercial funds. Improperly controlled expenditures still occur, but they are relatively rare.

3. During 1983, the Authorities prepared a three-year investment program covering the period 1983-85. Annual expenditures, at about B/.390 million, were to average about 8.5 percent of GDP compared to an average of 13 percent between 1975 and 1982. Detailed capital budgets are elaborated annually and incorporated into the general three year program. The 1983 capital budget, at B/.389.5 million, involved a reduction of 26 percent from 1982 and 29 percent from the amount originally requested from the different Ministries and agencies.

4. Total actual expenditure in 1983 was B/.404 million, some 4 percent over the budget. There were, however, considerable changes in the sectoral distribution of expenditures compared to those in the original 1983-85 Investment Program (Table 1). In particular, outlays on infrastructure increased from B/.145.7 million to about B/.200 million, due principally to: (i) an unbudgetted

expenditure of B/.25 million on a road between the Fortuna Dam site and Chiriqui Grande in Bocas del Toro Province; and (ii) an excess over expenditures budgetted by MIPPE of B/.38 million by the electricity company, IRHE. The budget was revised in September; most of these excesses were taken into account and other expenditures were reduced to keep the overall budgetted total the same. In the event, however, estimated actual outlays proved greater still. In the case of IRHE, this was due to the continuing influence of the cost overrun of the economically justified Fortuna hydroelectric project; the road expenditure, however, represents a breakdown of budgetary control procedures (para. 15).

5. The increased infrastructure expenditure was mostly balanced by reduced social sector outlays, especially in health and housing. In the latter, net lending by the National Mortgage Bank was only B/.2.6 million, while B/.23 million, or two thirds of the sector's total, was spent by the Social Security Agency in continuing the initial part of its Collective Housing Program.

6. In the directly productive sectors of agriculture and industry, net lending to the private sector by the Development Finance Company COFINA and the Agricultural Development Bank (BDA) fell sharply from originally budgetted levels; the demand for credit was reduced greatly by the recession. However, this was offset to a substantial extent by the capital expenditures of the Agricultural Marketing Institute (IMA) mainly in maintaining stocks of surplus rice (B/.28 million) and by repayment of previously incurred loan and commercial guarantees by COFINA (B/.11 million).

Table 1: COMPARISON OF PROGRAMMED, BUDGETTED AND ACTUAL CAPITAL EXPENDITURES BY SECTOR, 1983 b/

(Millions of Balboas)

Sector	Original Budget a/	Percent	Revised Budget b/	Percent	Actually Spent c/	Percent
Productive Sectors	96.6	24.8	49.6	12.7	81.6	20.2
Agriculture	68.9	17.7	42.5	10.9	57.7	14.3
Industry and Commerce	27.7	7.1	7.1	1.8	23.9 d/	5.9
Social Sectors	115.6	29.7	100.6	25.9	80.4	18.5
Education	18.3	4.7	16.0	4.1	18.5	4.6
Health	32.3	8.3	44.3	11.4	23.0	5.7
Housing	65.0	16.7	40.3	10.4	33.0	8.2
Infrastructure	145.7	37.4	200.9	51.7	203.7	50.4
Energy	78.3	20.1	107.7	27.7	116.0	28.7
Telecommunication	12.1	3.1	16.6	4.3	5.5	1.4
Transport	55.3	14.2	76.6	19.7	82.2	20.3
Multisectoral	31.6	8.1	38.4	9.9	44.3	10.9
TOTAL	389.5	100.0	389.5	100.0	404.1	100.0

a/ In accordance with the agreed 1983-85 Investment Program.
b/ As of September,1983.
c/ Preliminary Estimate.
d/ Including the repayment of B/.10.9 million in loan and commercial guarantees by COFINA.

Sources: MIPPE and World Bank estimates.

7. The detailed budget for 1984 was revised twice since the 1983-85 Investment Program was first prepared. The first, at the end of 1983, involved modifications in sectoral distribution of expenditures without changing the programmed outlays of B/.388 million. Those alterations made the 1984 budget more closely consistent with the revised 1983 sectoral distribution. The second, in June 1984, reduced the total expected outlay to B/.360 million, a prudent adjustment in view of the depressive effects of the continued economic recession on anticipated public sector revenues, and severe limits on credit availability. The original and revised budgets are shown in the following table.

Table 2: REVISIONS OF THE 1984 PUBLIC INVESTMENT BUDGET

(Millions of Balboas)

Sector	Original Investment Budget 1984 a/		Revised Investment Budget 1984	
	Amount	Percent	Amount	Percent
Productive				
Agriculture and Rural Development	77.0	19.8	45.4	12.6
Commerce and Industry	20.2	5.2	15.9	4.4
Subtotal	97.2	25.0	61.3	17.0
Infrastructure				
Energy	89.8	23.1	97.6	27.1
Transport	66.5	17.1	76.0	21.1
Telecommunications	10.9	2.8	14.1	3.9
Subtotal	167.2	43.0	187.7	52.0
Social Sector				
Education	14.8	3.8	19.3	5.4
Health	29.5	7.6	23.8	6.6
Housing	58.7	15.1	42.0	11.7
Subtotal	103.0	26.5	85.1	23.6
Other				
Tourism	0.5	0.1	0.5	0.2
Multisectoral and Community Projects	20.8	5.4	26.0	7.2
Subtotal	21.3	5.5	26.5	7.2
TOTAL	388.7	100.0	360.5	100.0

a/ In accordance with the agreed 1983-85 Investment Program.

Sources: MIPPE and World Bank estimates.

Public Capital Expenditure by Sector

(i) Agriculture

8. Public capital outlays in agriculture have been substantially reduced in recent years. Between 1974 and 1979 total expenditures, including the Agricultural Development Bank's (BDA) net lending, averaged over B/.80 million per year; this was the period of the construction of the La Victoria Sugar complex, the establishment of the Marketing Institute (IMA), heavy net lending to asentamientos by the BDA, and a considerable increase in the interventionist activities of the Agriculture Ministry itself (See Chapter IV). From 1980 onwards, as no new entities were created, and a period of more prudent fiscal policy began, capital expenditures were less than B/.50 million per year.

9. In 1984, the total sectoral budgetted expenditure of B/.45.4 million includes B/.6.5 million in compensation for the nationalization, in 1975, of the Citricos del Chiriqui property owned by the United States interests (Chapter IV). Of the remainder, B/.17.5 million, or 45 percent, consists of net lending by the BDA. It is doubtful if this figure, which represents a 30 percent reduction from that originally budgetted, was fully spent: the recession has reduced the demand for credit; the Authorities used credit restrictions, rather than the price mechanism, in their attempt to reduce surplus rice acreage; and the BDA, due to internal problems, experienced delays in the drawing down of funds from international development institutions.

10. The remaining B/.21.4 million was spread over 18 projects, with an average expenditure of less than B/.1.2 million in each. The most significant of these projects, many of which are supported by multilateral and bilateral aid agencies are: (i) expenditures related to sanitary requirements for beef exports (B/.5.7 million); (ii) agricultural research and development, including seeds (B/.4.7 million); (iii) Canal watershed protection (B/.2.8 million); development of indigenous areas (B/.2.8 million); capital expenditures by the Cooperative Federation (B/.2.0 million) and by the asentamientos (B/.1.2 million); and extension services by the Agriculture Ministry (B/.1.4 million). While these outlays may be individually small, they represent some seven percent of total public capital expenditures; the return on similar activities in the past, measured by increased agricultural output consistent with the country's comparative advantages, has been very low (Chapter IV). It is also noteworthy that only small amounts are directed towards forestry and erosion control (B/.0.5 million) and fresh or saltwater fish farming (B/.0.4 million), both of which are areas of considerable potential for Panama. Finally the budget also includes some B/.8.5 million in expenditures that will not recur: the Citricos del Chiriqui compensation and some B/.1.5 million to complete construction of grain elevators for IMA partly financed by USAID.

(ii) Commerce and Industry

11. During the 1970's, public investment in this sector was dominated by the construction of a B/.95 million cement plant (Cemento Bayano), the only directly owned state enterprise in the industrial sector. Investment costs were about B/.300 per ton of capacity which compares unfavorably with B/.70-190/ton plants of a larger size in other Latin American countries. Equipment was purchased oversize to allow low cost expansion at a later date; the construction contract was, moreover, turnkey which added about 20 percent to the investment cost. The kilns are oil fired; energy and fuel costs are over 30 percent of total production expenses. Although the plant was meant mostly for export, its high production costs ruled this out. The domestic price of cement rose from about B/.50 per ton in the mid 1970's to B/.120 per ton by mid 1983, some four times the FOB world price. The domestic market was divided by pre-arrangement with roughly half allocated to Cemento Bayano and the rest to a private company, Cemento Panama, even less efficient than the state owned plant. This arrangement ceased at the end of 1983. Both companies are currently investing in lower cost, coal fired klinker production which is due to come on stream at the end of 1984. This will hopefully permit a reduction in the domestic price of cement to the benefit of the construction industry. However, domestic cement production capacity will likely remain well in excess of consumption for the remainder of this decade.

12. After Cemento Bayano, most public resources in the sector were directed into net lending by the state owned Development Finance Corporation, COFINA. From 1978 through 1982, COFINA's total capital expenditures were B/.94 million (B/.19 million per year), of which B/.89.3 million, or 95 percent, were in net lending to the private sector. A review of COFINA's accounts in November 1982, revealed that the DFC was bankrupt. Losses of B/.37 million had been accrued in bad debts and unpaid interest, wiping out the equity of B/.20 million. New lending was suspended and attempts are currently underway to restructure the DFC.

13. After these difficult experiences, the Authorities have limited their capital expenditures in the sector to about B/.16 million per year. In 1984, this was spread over 14 different projects and establishments; the most significant outlays were B/.3.6 million for development of the Colon Free Zone and B/.1.5 million to finance expansion of the National Investment Council. The budget also included some B/.5 million to be on-lent by COFINA from World Bank and USAID sources; because of delays in the DFC's restructuring, it is doubtful whether this has been fully spent.

(iii) Transport

14. At B/.76.0 mllion, or 21 percent of the total transport is second only to energy in the 1984 investment budget. B/.63 million (83 percent) was to be spent on roads, and B/.13 million (17 percent) on ports. Several of the proposed new road investments are of doubtful priority while others are shortly due for completion. There should therefore be ample scope for reduced expenditures in the road subsector in 1985 and 1986.

15. From 1982 through 1984, a total of some B/.55 million has been spent on a paved road between the La Fortuna Dam site and the Trans-Isthmian Oil Pipeline. The Government entered into a contractual obligation with the Oil Pipeline Company to build the road, with the Company contributing B/.17 million. Of the Government's share of B/.38 million, B/.25 million was spent in 1983, and B/.13 million is budgetted to complete the project in 1984. There are two major problems concerning this project: first, the design standards are too high for the likely forecast traffic; and second, the cost (at more than B/.1 million per kilometer) is very high even for the specified standards. Moreover, the substantial amount spent in 1983 represents a breakdown of budgetary control procedures. B/.9 million was budgetted by MIPPE in that year; this was less than the amount originally programmed in order to spread the cost of the road over a longer period. The extra expenditure of B/.16 million came from a special overdraft account at the National Bank, drawings from which were not given prior approval by either MIPPE or the Office of the Comptroller General.

16. Another major expenditure, the urban road improvements ("Pasos elevados") in Panama City was advanced in 1984 and B/.11 million were allocated for this purpose. Although the Bank has still to receive the corresponding feasibility studies, 1/ it is likely that this project may be economically

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1/ The Ministry of Public Works has agreed to supply the Bank with technical and economic feasibility studies of any road projects costing more than B/.1 million each. This agreement is a covenant in the Road Rehabilitation Project Loan Agreement (Ln 2020-PAN).

viable since it will relieve substantial congestion-related delays to vehicles in the urban area. The construction was financed largely through suppliers credits.

17. A further B/.5 million of road improvements to the Panamerican and Trans-Isthmian Highways have also been finished, but the widening of the Arraijan-Rodman road near Panama City was postponed.

18. The expenditures in 1984 on these completed, or virtually completed, projects total about B/.33.5 million. Much of this could be saved in future years rather than spent on new projects; the greater part of those in the Ministry of Public Works pipeline are of less urgent priority. For example, the Ministry's Road Development Program for the Province of Bocas del Toro includes the following projects:

(a) the Fortuna-Punta Pena-Chiriqui Grande road discussed above and completed in 1984;

(b) Punta Pena-Casa de Maquina (70 km, B/.31.2 million) is a continuation of (a) above which will link Punta Pena with the Machine House of the proposed Hydroelectric Project, Changuinola I. According to a consultants' report, prepared in mid 1982, the project would have an internal rate of return of about 24 percent; however, this assumed that the Changuinola I project, postponed until at least 1992, would commence construction in the late 1980s. Detailed design of the road project was completed by September 1983, and construction was due to start in 1984. Although the road was not included in the MIPPE budget, it was apparently promised during the election campaign;

(c) the further extension of the road from Casa de Maquina to Almirante (8 km, B/.3 million) is planned for construction as part of the Changuinola Hydroelectric Project and would be under IRHE's responsibility;

(d) Almirante-town of Changuinola (35 km, B/.9 million) was included in the Inter-American Development Bank's fourth highway project as part of the Development Roads Plan. 13.4 km at the Changuinola end was dropped from the project for lack of counterpart funds, but the remaining 21.6 km are being constructed at a cost of B/.5.2 million. The rest will be proposed for inclusion in IDB's fifth highway project.

19. These projects were initiated at a time of considerably greater fiscal flexibility than is likely to prevail in the coming years. Under the new

conditions of sharply restricted public capital expenditure, they should be carefully re-examined before funds are allocated to them. This examination should take full account of the need to gear infrastructure expenditures to the effort of increasing exports of goods and services. Few of these will be generated in the remoter areas of the interior. It may be anticipated that in a relatively short space of time funds will be needed to develop the transport infrastructure in the Reverted Areas and other parts of the Trans-Isthmian corridor between Panama City and Colon. The opportunity cost of further major road developments in the interior should be viewed as probably having to forego these investments, which would have unfortunate consequences for the capacity to export and generate employment in the Metropolitan Area. Considerable sums have been spent on feeder and penetration highways in the last 10 years, and a well developed network of all weather roads covering most of the populated interior has resulted. By far the greater part of the limited funds available for investment in new transport infrastructure should now be concentrated in the Metropolitan Area, and expenditures elsewhere largely restricted to rehabilitation and maintenance.

20. Expenditures on ports, which together with highways account for practically all transport investments in 1984, were concentrated heavily on improvements in Cristobal and Coco Solo to the north of Colon. These projects, which the World Bank supports, will help to improve the country's potential as an exporter of both goods and services. In 1984, B/.11.7 and B/.0.5 million have been allocated respectively to these projects by the National Port Authority. They are designed to enhance Panama's ability to handle container traffic efficiently, and hence help to reverse the loss of transshipment business in recent years to neighboring ports (Chapter VI). In addition, investments will be needed to upgrade container handling at the port of Balboa.

(iv) Energy

21. Capital outlays in energy continue to be dominated by the La Fortuna Hydroelectric Project which will have a total cost of over B/.500 million including interest during construction and a cost overrun of more than 70 percent. Despite this overrun, the project remains economically viable and will likely result in savings of some B/.60 million per year in imported petroleum. Expenditures related to Fortuna in 1983 were mainly responsible for IRHE's estimated excess of B/.13 million over originally budgetted capital expenditures in that year. In the 1984 budget, B/.73.7 million was allocated to the project, 76 percent of IRHE's total capital expenditure and over one-fifth of the entire public sector capital budget. Although the project is due for completion in late 1984, some capital expenditures will be incurred in 1985 in settlement of final accounts.

Table 3: IRHE: SUMMARY OF INVESTMENT PROGRAM 1984-89

(Millions of Balboas)

	Accumulated Capital Expenditures	Budgeted Capital Expenditures					
	1975-1983a/	1984 b/	1985c/	1986c/	1987c/	1988c/	1989c/
On-going projects	691.1	100.1	63.8	16.6	-	-	-
Of Which:							
Fortuna I	(428.4)	(73.7)	(10.2)	(-)	(-)	(-)	(-)
Future projects	3.3	1.0	29.9	78.2	114.7	139.6	210.1
TOTAL	694.4	101.1	103.9	94.8	114.7	139.6	210.1

a/ Cash expenditures.
b/ MIPPE Budget.
c/ IRHE Program.

Sources: Comptroller General, MIPPE and IRHE.

23. Other than Fortuna I the principal ongoing projects are improvements to the power transmission and distribution systems, supported by the World Bank, and a series of investments in the system of substations. The bulk of proposed new investment from 1985 onwards is in further hydroelectric projects; the first is Fortuna II (the raising of the dam) which is estimated to cost some B/.73 million including a proposed US$60 million World Bank loan and is due for completion in 1988. Fortuna I and II should permit 100 percent reliance on hydropower until 1990. The construction of Changuinola was to have been timed to enable this to continue. However, such a large project--it would likely cost more than Fortuna--would exceed both the Government's and IRHE's financing abilities in the 1980's. It was therefore decided to postpone Changuinola and replace it with smaller, financially more manageable power plants. The tentative construction program to commence at the end of 1985 after a series of studies, is the following:

Table 4: IRHE: CONSTRUCTION PROGRAM BY PROJECT

Project	Cost a/ (B/.m.)	Capacity (MW)	Commence Operations in
(a) Firm construction program			
Fortuna I	512.3	300	1984
Interconnection w/Costa Rica	8.0	-	1986
Fortuna II	73.9	-	1988
Bayano Hydro, Unit 3	12.5	75	1990
(b) Tentative Construction Program c/			
Esti-Barrigon Hydroelectric	242.3 b/	120	1990
(c) Later Construction Program c/			
Colon and Fixed Steam Plant	35.2	150	1993
Changuinola I Hydro	49.1	300	1996
Teribe I Hydro	-	237	2000
Tabarana Hydro	-	220	2002
TOTAL	933.3	1,402	

a/ For up to 1989 only.
b/ Including the cost of a transmission line from David to Panama City.
c/ To be delivered in accordance with study results.

Sources: Comptroller General, MIPPE, and IRHE.

23. Total budgetted capital expenditures between 1984 and 1989 are B/.764.2 million, equivalent to B/.127.4 million per year in current prices and including interest during construction. For a period of tight fiscal constraints, this is a very heavy program of investments indeed, exceeding by 65 percent the annual amount spent during the 1975-83 period, which included Fortuna with its massive cost overruns. Although IRHE expects to finance a higher proportion of its investment from internally generated resources (65 percent from 1985 to 1989 compared to 46 percent between 1980 and 1983), the remainder will have to be met from further borrowing. Moreover, it is likely, in the light of previous experience, that the cost of the new projects will exceed the budgetted amounts by wide margins. Alternative ways of meeting demand in the 1990's should be thoroughly explored.

(v) Telecommunications

24. INTEL, the Government-owned telephone corporation, has spent a total of B/.142 million, equivalent to some B/.16 million per year, on capital expenditures from 1975 through 1983. Most of this has been concentrated on: (a) extension of telephone services to the rural areas; (b) direct dialing services between

metropolitan and rural areas; (c) installation of an international exchange which permits INTEL to handle international services previously provided by private corporations; and (d) a national and international telex service to replace the telegraphic facilities previously provided by the National Directorate of Telecommunications. The investments have mostly been financed from internally generated resources. The remaining financing has come from suppliers' credits. Although Panama's national and international telephone services are still of a high standard compared to most countries of the Region, there is some evidence of deterioration compared to the quality of service a decade ago. Excellent communications are essential for Panama with its reliance on internationally-oriented services. A thorough study of INTEL could determine the extent to which current costs could be reduced without compromising service quality, as well as reviewing the entity's investment program for the remainder of the 1980's.

(vi) The Social Sectors

25. Expenditure on health in Panama has traditionally been a high official priority. As well as heavy capital outlays, operating costs per patient are among the highest in the developing world. This expenditure has resulted in substantial improvements in health indicators since 1970, as the following table shows.

Table 5: PUBLIC HEALTH INDICATORS

	1970	1982
Number of inhabitants per doctor	1,674	1,007
Number of inhabitants per nurse	1,417	1,088
Number of inhabitants per hospital bed	288	271
Number of hospitals a/	24	47
Number of other care centers	155	597
Infant mortality rate (per 1,000)	40.5	20.0

a/ Including integrated medical centers.

Source: Comptroller General.

26. Over one-third of the total investments in the sector, which have averaged some B/.30 million per year since 1976, have been carried out through the water and sewerage agency, IDAAN. The agency's total spending of some B/.60 million from 1978 through 1983, has been related to a national sanitation program with the objective of eventually providing safe drinking water to at least 85 percent of the total population by 1985. The program aims at extending water and sewerage services to poor urban areas to meet the requirements of rural-urban migration; increasing services in rural areas; and providing adequate services to the industrial and commercial sectors. IDAAN has been partly supported by two World Bank loans which had important institution building components.

The Government has improved sectoral planning, as well as strengthening IDAAN's organization, management, operations and project preparation capabilities. Up to the late 1970's, water rates were not adequately adjusted, and much of the water used was not paid for. The Government, from 1976 onwards, took action on water pricing, so that a reasonable proportion (about 60 percent between 1978 and 1982) of new works could be financed from water sales, while maintaining cross-subsidization from high to low income consumers.

27. IDAAN plans total investments of B/.139 million during the period 1983-88. About 30 percent of this would come from IBRD and IDB lending, 55 percent from internally generated funds, and the remainder from Government equity contributions. This investment is modest in relation to subsectoral requirements and goals. These include: maintaining existing systems in good repair and expanding services to the 40,000 estimated annual additions to the urban population; expanding sewerage to reach a 90 percent service level in Panama's 15 largest urban centers and providing at least primary sewage treatment (oxidation ponds) in those urban centers where environmental pollution is most serious; providing adequate and safe water supply services through public systems to 85 percent of the rural population; and providing safe sewerage disposal facilities by individual means of disposal (septic tanks, latrines) to 90 percent of the rural population. Other investments, such as new sewerage treatment facilities for Panama City, would require much heavier outlays, and have been postponed until the above priorities have been met.

28. Remaining sectoral investment is the responsibility of the Social Security Agency (CSS) and the Ministry of Health (MH). The former made some very substantial investments in new hospitals in the 1960's and early 1970's, mostly financed by suppliers' credits and by commercial bank borrowing. Since the mid - 1970's, however, the CSS has not invested significant sums in this sector. Average annual outlays of about B/.6 million have been concentrated on improving facilities in existing hospitals in major population centers, and in the non-Metropolitan Area where the CSS's health services are integrated with those of the MH. The CSS has started building a new hospital in a poor area of the Province of Panama (San Miguelito). B/.3.5 million were budgetted for this in 1984. Estimated total cost is some B/.18 million. The MH is not contemplating any major new investments in the short to medium-term. In a manner typical of recent years, its total outlay in the 1984 capital budget, of B/.5.4 million, is divided between 11 small projects. Other than the CSS's new facility at San Miguelito, new hospital construction does not therefore feature large in sectoral investment plans. Rather, the Authorities are studying ways of reducing unit operating costs in health and achieving better utilization of the already well developed physical infrastructure.

29. While the private market for middle and higher income <u>housing</u> works well, public sector provision of low cost shelter has been consistently impeded by major institutional problems for more than a decade. In 1970, the Government initiated an ambitious program for low cost housing construction. After disappointingly slow progress in executing the program, the Government created two housing institutions in 1973: the Ministry of Housing (MIVI) and its financial arm, the National Mortgage Bank (BHN). Financed partly by contributions from international lending organizations, by the CSS, and by external commercial borrowing, MIVI/BHN housing schemes accelerated markedly from 1975 onwards: between then and 1978, a total of nearly B/.150 million (B/.37 million per year)

was spent on low cost housing projects, compared with only B/.4.3 million per year in the period 1971-1974. From 1979 onwards, however, the BHN encountered increasingly severe financial constraints: loan recovery rates were poor, the debt servicing burden was high, direct Government subsidies were reduced, and it became increasingly difficult for the institution to raise commercial credit. From 1979 through 1983, average annual outlays fell by 64 percent to about B/.13.5 million per year. Practically the only significant sources of new funds for the BHN in these years were the CSS and USAID.

30. Partly in order to fill the gap created by the slowdown in the MIVI/BHN program, the CSS initiated its own housing construction program (the Programa Colectivo de Vivienda or PCV). The PCV, which first came to the notice of the central planning authorities in mid-1981, was very ambitious, involving the construction of some 8,000 units over a two year period at a cost of B/.220 million.2/ It went beyond the CSS's normal program of mortgage finance for its members in that it involved the agency as direct promoter of the venture. The scheme exceeded the CSS's management capabilities; by July 1982, when the project was halted, B/.90 million had already been spent and only some 2,500 units had been completed or started. According to a subsequent investigation by the CSS, a further amount of up to B/.30 million will have to be written off to complete units already started and to meet other obligations connected with the project, signifying an average unit cost of B/.48,000, 80 percent over the original estimate. These large cost overruns provoked a national scandal, and the CSS management resigned in July 1982, amidst accusations of corruption. As part of its structural adjustment program, the Government declared that the PCV would not be reinitiated, and the CSS would restrict its participation in housing to the granting of mortgages to contributors and providing secondary mortgage finance through the BHN.

31. In 1982 and 1983, BHN/MIVI capital expenditures were some B/.28 million. Nearly all of this was financed by the USAID, the World Bank (the housing component of the Colon Urban Development project) and by contributions from the CSS. During this period, a number of important institutional reforms were achieved: project selection and monitoring procedures have been improved and interest rates on new BHN loans increased to 12 percent. However, the management capacity of both BHN and MIVI remains weak, while the former's financial position, already precarious, has been threatened still further by the loss of the thirteenth month "third part" contribution from the CSS (Chapter III). While the Authorities are aware of the shortage of adequate low cost shelter, both lack of financing and sectoral institutional weaknesses will likely limit spending to amounts similar to those of recent years. In the 1984 budget, B/.42 million were allocated to housing; of this B/.12 million was spent by the CSS in completing the PCV, B/.14 million by MIVI in the housing component of the Colon Urban Development Project, and B/.16 million by MIVI through the BHN in low cost housing projects financed by USAID.

32. Public <u>education</u> benefitted from very strong Government support in the early 1970's. The number of students enrolled in public schools at all

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2/ The average cost of B/.27,500 per unit was to include the cost of urbanization and development of site services.

educational levels increased by nearly 60 percent between 1970 and 1974; particularly striking were the gains at secondary and university level of 57 percent and 154 percent respectively. At the same time there were improvements in the quality of education, as suggested by changes in the ratio of students per teacher and teachers per school (See Table 6). Primary education has been extended to even the poorest areas, and secondary, university, and adult literacy education have been expanded in both scope and depth.

Table 6: PUBLIC EDUCATION INDICATORS

	Primary			Secondary			University		
	1960	1973	1982	1960	1973	1982	1960	1973	1982
Enrollment as % of relevant age group	85	93	96	24	36	37	n.a.	n.a.	n.a.
Students/Teachers	30	30	27	23	20	19	27	27	14
Teachers/Schools a/	4.1	5.0	5.3	13.4	23.8	28.4	96	335	786
Current cost per Student (B/.) b/:									
Current prices	49	92	209	141	182	315	286	652	1,000
Constant 1960 prices c/	49	70	82	141	138	124	286	493	394

a/ Includes private schools.
b/ Not including maintenance loans to students.
c/ Deflated by the Consumer Price Index.

Source: Comptroller General.

33. These efforts were initally costly; real current outlays per student increased sharply from 1960 to 1973. Real increases have continued in the case of primary education. However, at the secondary and university level, real unit costs have been contained while quality indicators continue improving; particularly striking is the large increase in university teachers, both per student and per institution. Considerably more attention needs to be paid, by both the public and private sectors, to vocational training in order to satisfy the needs of export-oriented industries.

34. Total capital outlays on infrastructure and equipment averaged B/.9 million per year between 1978 and 1982, almost double the average figure for the preceding seven years, and a further B/.10 million have been budgetted in 1984. However, there has been a significant slowdown in the annual rate of increase of public school enrollment to 0.2 percent since 1978, compared to 6.5 percent between 1970 and 1978. It should therefore be possible to reduce capital outlays by improving maintenance and upkeep of school facilities; because of poor maintenance, many facilities and much equipment have a short life expectancy.

35. Physical capital expenditures make up approximately half the sector's total investment budget. The rest consists of Government loans to university students working in Panama and abroad. These are not recorded in the national capital budget as net lending since the scheme is supposed to be self-financing. In practice, however, students rarely repay these loans and they consist, in effect, of a Government subsidy directly to the students and indirectly to the university. A system is needed to ensure loan recovery, while not undermining equity principles; this might be done for example, through systematic deductions from the graduate students' salaries.

(vii) Multisectoral Investments

36. As its name indicates, this category of expenditures covers all items which do not conveniently fit under other sectoral lendings. The total amount spent in 1984 was B/.26.5 million, about 7 percent of the total investment budget. This compares to estimated outlays of about B/.35 million in 1983. Three quarters of the expenditure are controlled by the Ministry of Planning and cover items such as community, municipal and regional development works (B/.12 million),studies, and a small employment generation program (B/.3 million). Because MIPPE directly controls them, these projects are easier to cut in times of tight fiscal constraint. A reduction of about B/.3 million is likely in 1985.

Conclusions

37. In general terms, the investment program is well conceived and emphasis is correctly placed in supporting infrastructure for private investment. There are no investments by the State in directly productive activities and outlays in the social sector are at or near the minimum consistent with maintaining standards of service. Also in general terms, individual projects are well chosen, though there is an absence of detailed project planning and an insufficient analysis of each projects' economic viability under alternative assumptions. This is particularly the case at the level of individual executing agencies and ministries where project analysis abilities vary considerably. For example, in the electricity company, IRHE, project selection and analysis capability has improved substantially in the context of general planning. In the Ministry of Public Works, on the other hand, there is a clear need for a stronger planning capability.

38. Although central control procedures for project selection, analysis and execution have been strengthened in recent years, this process is far from complete. This is illustrated by some major recent departures from the budget, the most serious examples of which were the Fortuna-Chiriqui Grande road in 1983, the Social Security housing program in 1982, and the Fortuna hydroelectric cost overruns in 1981/82. Although the causes for the excesses vary from case to case, they all share one common factor: the central planning authorities in MIPPE were not aware, at least in detail, of what was occurring until after the event, and were in each case presented with a costly fait accompli. This clearly demonstrates the need for strengthening MIPPE's own project planning capabilities so that it can more effectively monitor the budgetting and accountability procedures of the executing agencies.

39. The 1985 budget has been revised to take account of the difficult financial situation the Government is likely to face in the coming years. Reductions of some B/.30 million have been found in comparison with the

revised 1984 budget of B/.360 million in the light of likely current savings performance and the small size of the consolidated public deficit that can be financed. Tentatively, reductions totalling some B/.70 million would be made in the following areas:

(a) In agriculture, a compensation payment to a multinational firm was completely paid in 1984; this and other economies would give a saving of about B/10.5 million.

(b) In transport, two major road projects on which B/.24 million was spent in 1984 will be completed, and a further B/.5 million would be cut from various penetration road programs.

(c) In energy, some B/.20 million should be saved after the completion of the Fortuna project; although there is some postponement of expenditures on ongoing projects, outlays on new projects would bear the greater part of the cuts.

(d) Some B/.3 million would be reduced from multisectoral outlays, especially some lesser priority community projects.

PANAMA

STRUCTURAL CHANGE AND GROWTH PROSPECTS

STATISTICAL APPENDIX

PANAMA

Structural Change and Growth Prospects

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STANDARD TABLES

Table 1: PANAMA - NATIONAL ACCOUNTS SUMMARY, 1970-83
(US$ Millions)

ACCOUNT	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 a/
Gross Domestic Product	1021.2	1151.9	1264.9	1446.6	1654.1	1840.8	1956.3	2069.8	2452.5	2800.2	3558.8	3878.0	4287.1	4369.6
Resource Gap	34.2	43.4	62.4	56.8	155.3	129.0	137.4	75.8	113.8	246.5	117.6	167.7	100.5	-95.3
Exports of GNFS	388.2	426.4	460.7	528.1	761.8	865.4	837.8	921.1	986.4	1124.8	1567.2	1690.5	1782.7	1805.0
Imports of GNFS	422.4	469.8	523.1	584.9	917.1	999.4	975.2	996.9	1100.2	1371.3	1684.8	1858.2	1883.2	1709.7
Total Expenditures	1055.4	1195.3	1327.3	1503.4	1809.4	1969.8	2093.7	2145.6	2566.3	3046.7	3676.4	4045.7	4387.6	4274.3
Consumption	771.1	845.4	924.8	1017.7	1253.3	1407.4	1474.9	1654.7	1914.6	2161.0	2689.9	2878.2	3154.4	3170.7
Government	152.3	180.2	226.5	250.1	299.3	353.3	386.1	412.1	482.9	567.2	680.4	812.8	965.3	986.4
Private	618.8	665.2	698.3	767.7	954.0	1054.1	1088.8	1242.6	1431.7	1693.8	2009.5	2065.4	2181.9	2184.2
Investment	284.3	349.9	402.5	485.7	556.1	567.4	618.8	490.9	651.7	785.7	986.5	1167.5	1233.2	1103.6
Fixed Investment	261.9	306.3	372.2	434.8	465.0	535.5	608.6	445.9	606.3	661.2	866.5	1079.9	1231.7	1103.6
Change in Stocks	22.4	43.6	30.3	50.9	91.1	31.9	10.2	45.0	45.4	124.5	120.0	87.6	1.5	-
Domestic Savings	250.1	306.5	340.1	428.9	400.8	438.4	481.4	415.1	537.9	539.2	855.5	999.8	1132.7	1198.9
Net Factor Income	-28.4	-31.5	-33.9	-41.2	-56.7	-21.8	-53.8	-61.4	-54.1	-107.8	-160.5	-275.6	-372.1	-320.1
Net Current Transfers	4.0	4.4	4.8	-4.3	-3.7	-5.0	-3.9	-2.3	-2.2	14.3	12.7	29.1	35.1	39.6
National Savings	225.7	279.4	311.0	383.4	340.4	411.6	423.7	351.4	481.6	445.7	707.7	753.3	790.7	918.4
Average Annual Exchange Rate (Balboas per US$)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

a/ Preliminary

Table 2: PANAMA - NATIONAL ACCOUNTS SUMMARY, 1970-83
(1978 US$ Millions)

ACCOUNT	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983a/
Gross Domestic Product	1728.7	1902.7	2001.6	2115.7	2142.1	2191.1	2234.5	2233.9	2452.5	2562.1	2949.9	3073.2	3242.5	3248.2
Terms of Trade Effect	61.5	102.8	127.5	103.1	75.5	55.1	22.0	-37.5	0.0	-46.5	-164.8	-188.9	-288.5	-275.3
Gross Domestic Income	1790.2	2005.5	[illegible]	2218.8	2217.6	2246.2	2256.5	2196.4	2452.5	2515.6	2785.1	2884.3	2954.0	2972.9
Resource Gap	68.0	85.8	118.8	95.6	186.7	140.9	140.3	72.8	113.8	203.1	92.7	120.6	71.0	-66.6
Imports GNFS	840.2	929.5	996.5	984.4	1102.8	1050.9	995.8	957.4	1100.2	1130.0	1327.7	1336.7	1331.6	1195.8
Exports GNFS	710.7	740.9	750.2	785.7	840.6	854.9	833.5	922.1	986.4	973.4	1399.8	1405.0	1549.1	1537.7
Capacity to Import	772.2	843.7	877.7	888.8	916.1	910.0	855.5	884.6	986.4	926.9	1235.0	1216.1	1260.6	1262.4
Total Expenditures	1858.2	2091.3	2247.9	2314.4	2404.3	2387.0	2396.8	2269.2	2566.3	2718.7	2877.8	3004.9	3025.0	2906.3
Consumption	1291.2	1396.8	1451.0	1488.0	1621.1	1629.1	1645.3	1747.3	1914.6	2017.7	2058.3	2082.3	2137.2	2121.5
Government Consumption	281.2	319.6	372.8	380.0	391.8	432.6	445.0	462.4	482.9	496.9	525.9	607.8	641.7	710.7
Private Consumption	1010.0	1077.2	1078.2	1108.0	1229.3	1196.5	1200.3	1284.9	1431.7	1520.8	1532.4	1474.6	1495.5	1410.8
Investment	567.0	694.5	796.9	826.4	783.2	758.0	751.5	521.9	651.7	701.0	819.5	922.6	887.8	784.8
Fixed Investment	523.6	601.8	746.0	747.4	668.8	721.8	736.2	489.1	606.3	599.7	730.6	852.2	890.6	784.8
Changes in Stock	43.4	92.7	50.9	79.0	114.4	36.2	15.3	32.8	45.4	101.3	88.9	70.4	-2.8	-
Domestic Savings	499.0	608.7	678.1	730.8	596.5	617.1	611.2	449.1	537.9	497.9	726.8	802.0	816.8	851.4
Net Factor Income	-30.1	-42.2	-52.3	-40.9	-47.2	-25.5	-79.9	-87.6	-54.1	-81.3	-105.3	-151.6	-254.5	-301.6
Net Current Transfers	6.8	7.3	7.6	-5.9	-4.8	-6.0	-4.5	-2.5	-2.2	13.1	10.3	22.5	25.5	28.2
National Savings	475.7	573.8	633.4	684.0	544.5	585.6	526.8	359.0	481.6	429.7	631.8	672.9	587.8	578.0
Deflators (1978=100)														
Gross Domestic Product	59.07	60.54	63.19	72.27	77.22	84.01	87.55	92.65	100.00	109.29	120.64	126.19	132.22	134.52
Imports GNFS	50.27	50.54	52.49	59.42	83.16	95.10	97.93	104.13	100.00	121.35	126.90	139.01	141.42	142.98
Exports GNFS	54.62	57.55	61.41	67.21	90.63	101.23	100.52	99.89	100.00	115.55	111.96	120.32	115.08	117.58
Total Expenditure	56.80	57.16	59.05	64.96	75.26	82.52	87.35	94.55	100.00	112.06	127.75	134.64	145.04	147.07
Total Consumption	59.72	60.52	63.74	68.39	77.31	86.39	89.64	94.70	100.00	112.06	130.69	138.22	147.59	149.46
Government Consumption	54.16	56.38	60.76	65.82	76.39	81.67	86.76	89.12	100.00	114.15	129.38	133.73	150.43	138.79
Private Consumption	61.27	61.75	64.77	69.28	77.61	88.10	90.71	96.71	100.00	111.38	131.13	140.65	146.38	154.82
Total Investment	50.14	50.38	50.51	58.77	71.00	74.85	82.34	94.06	100.00	112.08	120.38	126.52	138.98	140.62
Fixed Investment	50.02	50.90	49.89	58.18	69.53	74.19	82.67	91.17	100.00	110.26	118.60	126.72	138.30	140.62
Change in Stocks	51.61	47.03	59.53	64.43	79.63	88.12	66.67	137.20	100.00	122.90	134.98	124.43	286.70	140.62
Exchange Rate	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

a/ Preliminary

Table 3: PANAMA - BALANCE OF PAYMENTS SUMMARY, 1975-1983
(US$ Millions)

ACCOUNT	1975	1976	1977	1978	1979	1980	1981	1982	1983 a/
Current Account									
Exports of Goods and Non Factor Services	865.4	837.8	921.1	986.4	1124.8	1567.2	1690.5	1782.7	1805.0
Merchandise (fob)	330.8	270.6	287.0	385.8	453.0	526.0	493.5	488.2	436.7
Non Factor Services	534.6	567.2	634.1	600.6	671.8	1041.2	1197.0	1294.5	1368.3
Imports of Goods and Non Factor Services	999.4	975.2	996.9	1100.2	1371.3	1684.8	1858.2	1883.2	1709.7
Merchandise (fob)	821.9	784.3	784.2	857.7	1078.4	1342.3	1469.5	1496.3	1353.0
Non Factor Services	177.5	190.9	212.7	242.5	292.9	342.5	388.7	386.9	356.7
Resource Balance	-134.0	-137.4	-75.8	-113.8	-246.5	-117.6	-167.7	-100.5	95.3
Net Factor Income	-21.8	-53.8	-61.4	-54.1	-107.8	-160.5	-275.6	-372.1	-320.1
Receipts	373.3	411.2	482.2	794.6	1435.0	2107.3	878.7	941.3	1269.8
Payments	395.1	465.0	543.6	848.7	1542.8	2267.8	1154.3	1313.4	1589.8
Net Current Transfers	-5.0	-3.9	-2.3	-2.2	14.3	12.7	29.1	35.1	39.6
Receipts	23.7	27.3	32.5	36.4	57.0	71.1	84.8	99.0	111.0
Payments	28.7	31.2	34.8	38.6	42.7	58.4	55.7	53.6	71.4
Current Account Balance	-160.8	-195.1	-139.5	-170.1	-340.0	265.4	-414.2	-437.5	-185.2
Capital Account									
Net Borrowing of the Non Financial Public Sector	79.2	290.2	237.5	486.5	194.3	223.8	203.9	509.1	295.6
Inflows	106.7	332.1	317.0	1021.3	438.2	487.1	328.8	730.2	363.2
Outflows	27.5	41.9	79.5	534.8	243.9	263.3	124.9	221.1	67.6
Net Borrowing of the Official Banks b/	n.a.	n.a.	n.a.	-82.8	55.9	39.1	-36.9	3.0	-88.2
Net Monetary Movements of the Private Banks	175.7	30.7	4.9	-15.4	84.3	85.2	126.4	-91.5	5.5
Net Private Borrowing by Agents Outside the Banking Sector	n.a.	n.a.	n.a.	12.2	30.9	9.1	124.0	90.3	-99.2
Direct Private Investment (Net)	7.6	10.8	10.9	-2.5	58.0	54.8	53.0	53.4	52.1
Capital Account (Net)	262.5	331.7	253.3	398.0	423.4	412.0	470.4	564.3	165.8
Unidentified Private Capital Flows(Net) and Net Errors and Ommissions	-101.7	-136.6	-113.8	-227.9	-83.4	-146.6	-56.2	-126.8	19.4

a/ Preliminary.
b/ Principally National Bank of Panama.

I.

HUMAN RESOURCES

Table 1.1: POPULATION BY METROPOLITAN AREA AND PROVINCE, 1911-2000
(Thousands)

YEAR	TOTAL	METROPOLITAN AREA a/		PROVINCES								
		NUMBER (000)	PERCENT OF TOTAL	BOCAS DEL TORO	COCLE	COLON	CHIRIQUI	DARIEN	HERRERA	LOS SANTOS	PANAMA	VERAGUAS
1911	336.7	94.0	27.9	22.7	35.0	32.1	63.4	9.0	23.0	30.1	61.9	59.6
1920	446.1	156.3	35.0	27.2	45.2	58.3	76.5	10.7	29.0	34.6	98.0	66.6
1930	467.5	171.3	36.6	15.9	48.2	57.2	76.9	13.4	31.0	41.2	114.1	69.5
1940	622.6	251.4	40.4	16.5	55.7	78.1	111.2	14.9	38.1	49.6	173.3	85.0
1950	805.3	338.4	42.0	22.4	73.1	90.1	138.1	14.7	50.1	61.4	248.3	107.0
1960	1,075.5	477.8	44.4	32.6	93.2	105.4	188.4	19.7	61.7	70.6	372.4	131.7
1970 b/	1,487.3	734.4	49.4	46.7	123.4	138.7	245.9	25.2	76.0	75.4	595.7	160.3
1975	1,703.8	873.9	51.3	53.9	135.9	154.6	278.1	27.3	82.9	77.8	719.3	174.0
1980	1,956.4	1,046.1	53.5	63.2	147.2	17[illegible].9	310.8	31.2	90.3	79.1	867.2	188.5
1981 c/	1,998.8	1,072.9	53.7	65.2	149.2	182.4	317.5	32.1	91.9	79.4	890.5	191.6
1982	2,043.7	1,103.8	54.0	67.2	151.4	189.8	324.4	33.0	93.5	79.7	914.0	194.7
1983	2,088.7	1,127.2	54.0	69.2	153.9	189.3	331.5	34.0	95.1	80.0	937.9	197.8
1984	2,134.2	1,155.1	54.1	71.2	156.5	192.9	338.6	35.0	96.6	80.3	962.2	200.9
1985	2,180.5	1,183.5	54.3	73.3	159.1	196.4	345.8	36.1	98.2	80.6	987.1	203.9
1990	2,417.9	1,330.0	55.0	83.9	172.5	214.9	382.3	42.2	105.8	82.3	1,115.1	218.9
1995	2,659.0	1,484.6	55.8	95.4	182.3	234.3	418.1	49.5	112.7	83.2	1,250.3	233.2
2000	2,893.3	1,642.7	56.8	107.8	188.9	255.2	450.2	57.2	117.8	82.8	1,387.5	245.9

a/ Provinces of Panama and Colon.
b/ Data for 1911 through 1960 are from the National Census of 1980. Data from 1970 through 2000 are from the Comptroller General. Therefore, there may be slight inconsistencies from 1960 to 1970.
c/ Figures for 1981 through 2000 are projections.

Source: Comptroller General, and National Census of 1980.

Table 1.2: BIRTH AND MORTALITY RATES, 1970-82

YEAR	BIRTHS		DEATHS a/						NATURAL GROWTH	
			GENERAL		BABIES (UNDER 1 YEAR)		MOTHERS b/			
	TOTAL	PER 1,000 INHABITANTS c/	TOTAL	PER 1,000 INHABITANTS c/	TOTAL	PER 1,000 LIVE BIRTHS	TOTAL	PER 1,000 LIVE BIRTHS	TOTAL	PER 1,000 INHABITANTS c/
1970	53,287	37.1	10,225	7.1	2,156	40.5	72	1.4	43,062	30.0
1971	54,948	37.2	9,857	6.7	2,064	37.6	63	1.1	45,091	30.5
1972	54,910	36.0	9,076	6.0	1,848	33.6	61	1.1	45,834	30.0
1973	52,091	33.2	9,161	5.8	1,737	33.3	54	1.0	42,390	27.4
1974	52,772	32.6	9,001	5.6	1,663	31.5	43	0.8	43,771	27.0
1975	53,790	32.3	8,683	5.2	1,669	31.0	50	0.9	45,107	27.1
1976	53,002	30.8	8,564	5.0	1,951	36.8	51	1.0	44,438	25.8
1977	52,722	29.8	8,036	4.5	1,470	27.9	36	0.7	44,686	25.3
1978	53,040	29.1	7,555	4.1	1,294	24.4	48	0.9	45,485	25.0
1979	52,919	28.1	8,192	4.4	1,308	24.7	37	0.7	44,727	23.7
1980	52,626	27.1	7,959	4.1	1,144	21.7	37	0.7	44,667	23.0
1981	53,873	27.0	7,976	4.0	1,199	22.3	33	0.6	45,897	23.0
1982	54,491	26.7	8,142	4.0	1,090	20.0	49	0.9	46,349	22.7

a/ Excludes fetal deaths.
b/ Refers to deaths due to pregnancy, labor and postnatal complications.
c/ Based on population estimates as of July 1.
d/ Preliminary.

Source: Comptroller General.

Table 1.3: FERTILITY RATES, 1960-2025

PERIOD	TOTAL FERTILITY RATE a/
1960-65	5.9 b/
1965-70	5.6
1970-75	4.9
1975-80	4.1
1980-85	3.5 c/
1985-90	3.1
1990-95	2.8
1995-2000	2.5
2000-05	2.2
2005-10	2.1
2010-15	2.1
2015-20	2.1
2020-25	2.1

a/ Number of children that would be born per woman if she were to live to the end of her childbearing years and bear children at each age in accord with prevailing age-specific fertility rates.

b/ Figures are annual averages for the five-year period.

c/ Figures for 1980-85 and later years are projections.

Sources: For 1960-80 figures: United Nations Population Division, 1983 Revision, Preliminary.
For 1980-2025 figures: World Bank Population, Health and Nutrition Department projections.

Table 1.4: PUBLIC AND PRIVATE SCHOOLS, TEACHERS AND STUDENTS, 1970-1983
(Number)

YEAR	CATEGORY	TOTAL	PRE-PRIMARY	PRIMARY a/	SECONDARY	UNIVERSITY b/	SPECIAL, SUPPLEMENTARY AND NON-UNIVERSITY
1970	Schools	2,150	130	1,784	192	2	42
	Teachers	13,419	218	8,717	3,784	448	252
	Students	353,730	6,921	255,287	78,466	8,947	4,109
1971	Schools	2,381	155	1,971	207	2	46
	Teachers	15,610	257	10,004	4,460	566	323
	Students	401,886	7,764	287,565	86,795	15,074	4,688
1972	Schools	2,562	170	2,127	213	2	50
	Teachers	17,030	329	10,689	5,066	606	340
	Students	439,068	9,259	305,651	99,063	18,280	6,815
1973	Schools	2,576	185	2,116	227	2	46
	Teachers	17,407	376	10,578	5,426	670	357
	Students	470,184	10,249	319,124	111,929	21,761	7,121
1974	Schools	2,656	216	2,168	225	2	45
	Teachers	18,152	389	10,731	5,803	843	386
	Students	494,771	11,374	328,460	123,310	24,204	7,423
1975	Schools	2,654	224	2,171	209	2	48
	Teachers	18,624	418	11,185	5,670	869	482
	Students	516,128	12,398	342,043	125,745	26,219	9,723
1976	Schools	2,651	223	2,178	196	2	52
	Teachers	19,639	375	11,943	5,701	1,082	538
	Students	536,565	12,554	353,646	129,579	30,545	10,241
1977	Schools	2,658	220	2,193	192	2	51
	Teachers	20,559	419	12,509	5,882	1,160	589
	Students	554,344	13,177	357,753	137,185	35,144	11,085

Table 1.4: PUBLIC AND PRIVATE SCHOOLS, TEACHERS AND STUDENTS, 1970-83
(Number)

YEAR	CATEGORY	TOTAL	PRE-PRIMARY	PRIMARY a/	SECONDARY	UNIVERSITY b/	SPECIAL, SUPPLEMENTARY AND NON-UNIVERSITY
1978	Schools	2,812	301	2,260	193	2	56
	Teachers	21,598	651	13,032	5,975	1,278	662
	Students	571,701	15,702	368,738	139,323	34,966	12,972
1979	Schools	2,937	407	2,281	198	2	49
	Teachers	22,563	730	13,730	6,202	1,310	635
	Students	581,266	18,677	372,823	137,816	37,885	14,065
1980	Schools	3,027	365	2,306	301	2	53
	Teachers	23,195	645	12,361	8,138	1,360	691
	Students	582,700	18,136	337,522	171,273	40,446	15,323
1981	Schools	3,184	498	2,316	307	2	61
	Teachers	24,299	851	12,598	8,610	1,586	654
	Students	585,802	22,616	335,239	174,078	42,816	11,053
1982	Schools	3,288	539	2,347	313	3	78
	Teachers	25,151	966	12,853	8,928	1,705	699
	Students	596,390	24,656	336,740	174,791	46,189	14,014
1983 c/	Schools	3,391	612	2,376	321	3	79
	Teachers	25,122	1,016	12,613	9,249	1,683	561
	Students	593,613	24,963	335,950	176,916	45,824	9,960

a/ In 1975 the public school system began a major change. Whereas the earlier system had been 1-6-6-4 (pre-primary, primary, secondary, university), there was a shift towards "basic cycle" schools, which have 9 grades and "medium" schools, which have 3 grades. Since the system is being implemented gradually, the old statistical format has been retained, although after 1974 some students in "primary" schools are really in grades 7-9 of the "basic cycle" schools.

b/ Includes public nursing schools, teachers and students.

c/ Preliminary.

Source: Comptroller General.

Table 1.5: POPULATION 15 YEARS OF AGE AND OVER, ECONOMICALLY ACTIVE POPULATION AND EMPLOYMENT, 1963-83

YEAR	TOTAL POPULATION 15 YEARS AND ABOVE (000)	ECONOMICALLY ACTIVE POPULATION		EMPLOYED (000)	UNEMPLOYED		NON-ECONOMICALLY ACTIVE (000)
		NUMBER (000)	PARTICIPATION RATE (%)		NUMBER (000)	RATE (%)	
1963	620.0	360.0	58.1	339.0	21.0	5.8	260.0
1965	659.0	379.0	57.5	350.0	29.0	7.6	280.0
1970	762.7	467.5	61.3	434.3	33.2	7.1	295.2
1971	786.8	477.6	60.7	441.3	36.3	7.6	309.2
1972	811.7	488.6	60.2	455.4	33.2	6.8	323.1
1973	835.8	499.0	59.7	464.1	34.9	7.0	336.8
1974	869.5	517.4	59.5	487.4	30.0	5.8	352.1
1975	896.1	492.8	55.0	461.2	31.6	6.4	403.3
1976	917.9	505.3	55.0	471.6	33.7	6.7	412.6
1977	950.5	515.5	54.2	470.5	45.0	8.7	435.0
1978	973.7	543.1	55.8	499.3	43.8	8.1	430.7
1979	1,002.9	577.8	57.6	527.0	50.7	8.8	425.2
1982 a/	1,140.6	612.6	53.7	561.1	51.5	2.4	523.1
1983 b/	1,183.1	661.8	55.9	599.0	62.8	9.5	521.2
Growth Rates (Percent per year) 1963-72	3.0	3.5	n.a.	3.3	5.2	n.a.	2.4
1973-83	3.5	2.9	n.a.	2.6	6.1	n.a.	4.5

a/ Data for 1980 and 1981 are not available.
b/ Preliminary.

Source: Comptroller General.

Table 1.6: EMPLOYMENT BY SECTOR AND AREA, 1976-82
(Thousands)

SECTOR	1976		1977		1978		1979		1982		AVERAGE ANNUAL GROWTH RATE (%)	
	NATIONAL	MET AREA[a/]	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA
TOTAL	471.6	254.4	470.5	256.0	499.3	281.2	527.0	301.8	561.1	311.0	2.9	3.4
Agriculture, Fishing and Livestock	148.7	24.6	147.7	20.4	144.2	21.6	154.9	25.7	157.4	23.9	1.0	-0.5
Manufacturing and Mining	48.1	29.0	48.9	32.9	49.5	33.3	54.1	36.9	54.8	34.3	2.2	2.8
Electricity, Gas and Water	5.6	4.1	5.7	4.2	7.0	5.3	6.4	4.8	7.7	5.6	5.5	5.3
Construction	29.1	18.7	24.4	16.1	25.7	16.4	30.8	21.7	38.5	25.4	4.8	5.2
Commerce	64.7	48.3	64.3	47.0	66.2	48.2	70.9	52.6	73.9	51.2	2.2	1.0
Transport, Storage and Communications	24.1	18.2	25.1	18.9	27.4	20.3	28.6	21.9	34.5	26.8	6.2	6.7
Financial Services and Real Estate	15.5	13.3	15.6	13.8	19.4	17.2	19.6	17.5	24.4	21.2	7.9	8.1
Other Services	135.8	98.2	138.6	102.7	159.9	118.9	161.7	120.7	169.9	122.6	3.8	3.8

a/ Metropolitan Area of the Provinces of Panama and Colon.

Sources: Comptroller General and World Bank estimates.

Table 1.7: ACTIVE LABOR FORCE, PARTICIPATION RATES AND UNEMPLOYMENT RATES, 1963-83

YEAR	ECONOMICALLY ACTIVE LABOR FORCE (000)	PARTICIPATION RATES (%)	ADJUSTED LABOR FORCE a/ (000)	OFFICIAL UNEMPLOYMENT RATES (%)	ADJUSTED UNEMPLOYMENT RATES a/ (%)
1963	360.0	58.1	360.0	5.8	5.8
1964	365.0	57.4	365.0	7.4	7.4
1965	379.0	57.5	379.0	7.6	7.6
1966	391.0	57.5	391.0	5.1	5.1
1967	409.0	58.7	409.0	6.2	6.2
1968	435.0	61.0	435.0	7.0	7.0
1969	450.0	61.1	450.0	6.6	6.6
1970	467.5	61.3	467.5	7.1	7.1
1971	477.6	60.7	477.6	7.6	7.6
1972	488.6	60.2	481.0	6.8	5.3
1973	499.0	59.7	495.3	7.0	6.3
1974	517.4	59.5	515.2	5.8	5.4
1975	492.8	55.0	531.0	6.4	13.1
1976	505.3	55.0	543.9	6.7	13.3
1977	515.5	54.2	563.2	8.7	16.5
1978	543.1	55.8	577.0	8.1	22.1
1979	577.8	57.6	594.3	8.8	11.3
1982 b/	612.6	53.7	675.9	8.4	17.0
1983 c/	661.8	55.9	701.6	9.5	14.6

a/ Assumes average participation rates between 1963-1971 continued from 1972 to 1982.
b/ Data for 1980 and 1981 are not available.
c/ Preliminary.

Sources: Comptroller General and World Bank estimates.

Table 1.8: LABOR FORCE PARTICIPATION RATES AND THEIR CHANGES BY SEX, AGE AND AREA, 1976-82

AGE AND SEX	LABOR FORCE PARTICIPATION RATES (PERCENT)						CHANGE IN PARTICIPATION RATES (PERCENT)					
	1976		1979		1982		1976-82		1976-79		1979-82	
	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA
TOTAL	55.0	55.8	57.6	59.6	53.7	54.4	-1.3	-1.4	2.6	3.8	-3.9	-5.2
Males	79.5	75.2	79.9	77.8	76.2	72.9	-3.3	-2.3	0.4	2.6	-3.7	-4.9
15-19	40.3	28.1	42.8	34.3	36.9	27.3	-3.4	-0.8	2.5	6.2	-5.9	-7.0
20-29	89.0	85.8	91.7	90.9	86.1	83.5	-2.9	-2.3	2.7	5.1	-5.6	-7.4
30-39	98.5	98.2	98.7	98.7	97.2	97.4	-1.3	-0.8	0.2	0.5	-1.5	-1.3
40-49	98.1	98.0	97.3	97.1	97.1	97.4	-1.0	-0.6	-0.8	-0.9	-0.2	0.3
50-59	87.7	84.8	90.1	88.4	87.1	83.5	-0.6	-1.3	2.4	3.6	-3.0	-4.9
60 plus	58.9	46.0	51.8	41.3	47.4	37.0	-11.5	-9.0	-7.1	-4.7	-4.4	-4.3
Females	30.7	37.8	35.3	43.0	32.1	37.7	1.4	-0.1	4.6	5.2	-3.2	-5.3
15-19	19.5	21.6	20.2	23.9	19.0	21.2	-0.5	-0.4	0.7	2.3	-1.2	-2.7
20-29	41.8	50.2	50.4	58.3	45.1	50.5	3.3	0.3	8.6	8.1	-5.3	-7.8
30-39	38.5	48.5	46.7	58.1	45.1	52.0	6.6	3.5	8.2	9.6	-1.6	-6.1
40-49	34.6	44.9	39.0	50.3	37.1	45.7	2.5	0.8	4.4	5.4	-1.9	-4.6
50-59	22.5	28.2	24.7	30.7	21.5	27.5	-1.0	-0.7	2.2	2.5	-3.2	-3.2
60 plus	9.9	11.4	9.0	10.2	7.8	7.0	-2.1	-4.4	-0.9	-1.2	-1.2	-3.2

Source: Comptroller General.

Table 1.9: LABOR FORCE PARTICIPATION RATES, BY SEX, AGE AND AREA, 1974-82
(Percent)

AGE AND SEX	1974		1976		1977		1978		1979		1982 a/	
	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA
TOTAL	59.5	61.8	55.0	55.8	54.2	54.2	55.8	56.9	57.6	59.6	53.7	54.4
15-19	34.0	30.6	30.0	24.7	28.7	23.7	28.9	24.8	31.7	28.9	27.2	24.3
20-59	68.8	73.3	63.8	66.7	63.6	65.4	65.6	68.3	67.4	70.8	63.9	66.2
60 plus	38.8	33.6	34.8	27.9	30.2	22.4	29.4	22.0	30.5	24.3	27.7	21.5
Males	87.2	84.3	79.5	75.2	77.7	73.1	77.6	74.7	79.9	77.8	76.2	72.9
15-19	48.7	38.7	40.3	28.1	38.7	25.8	37.9	28.7	42.8	34.3	36.9	27.3
20-59	98.9	98.5	93.3	91.7	92.6	90.7	92.8	91.5	94.5	93.8	91.9	90.5
60 plus	68.2	56.2	58.9	46.0	50.4	36.1	49.9	37.5	51.8	41.3	47.4	37.0
Females	32.0	40.8	30.7	37.8	30.6	36.5	33.9	40.7	35.3	43.0	30.1	37.7
15-19	20.7	23.7	19.5	21.6	18.4	21.7	19.7	21.5	20.2	23.9	18.7	21.2
20-59	38.2	49.0	34.4	43.0	34.5	41.6	38.3	46.9	40.2	50.4	37.2	43.9
60 plus	9.6	12.4	9.9	11.4	9.3	9.7	8.4	8.6	9.0	10.2	7.8	7.0

a/ Data for 1980 and 1981 are not available.

Sources: Comptroller General and World Bank estimates.

Table 1.10: LABOR FORCE AND UNEMPLOYMENT BY AGE AND AREA, 1982

AGE GROUP	TOTAL LABOR FORCE (000)		PERCENT		UNEMPLOYED (000)		PERCENT		UNEMPLOYMENT RATE (%)	
	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA
TOTAL	1,140.6	636.0	100.0	100.0	51.7	35.2	100.0	100.0	8.4	10.2
15-19	206.7	113.3	18.1	17.8	12.6	8.0	24.4	22.7	22.4	29.1
20-24	160.1	94.9	14.0	14.9	18.6	12.5	36.0	35.5	19.0	21.9
25-29	131.9	81.5	11.6	12.8	9.2	6.7	17.8	19.0	10.0	11.5
30-39	222.1	129.3	19.5	20.3	6.5	4.7	12.6	13.4	4.1	4.9
40-49	159.5	80.1	14.0	12.6	2.4	1.5	4.6	4.3	2.2	2.7
50-59	120.1	64.2	10.5	10.1	1.5	1.0	2.9	2.8	2.3	2.9
60-69	84.5	46.0	7.4	7.2	0.7	0.6	1.4	1.7	2.4	4.7
70 plus	55.8	26.7	4.9	4.3	0.2	0.2	0.3	0.6	1.7	4.3

Source: Comptroller General.

Table 1.11: UNEMPLOYMENT a/: DISTRIBUTION BY AGE, SEX AND PERIOD, 1976 and 1982
(Percent)

AGE AND SEX	TOTAL		PERIOD OF UNEMPLOYMENT: LESS THAN 6 MONTHS		6-11 MONTHS		1-2 YEARS		3 OR MORE YEARS		NON-CLASSIFIED	
	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982	1976	1982
TOTAL	100.0	100.0	60.2	42.8	11.8	13.9	16.1	27.3	7.7	14.9	4.2	1.0
15-19	17.5	13.3	63.1	52.6	11.0	23.4	14.9	16.0	1.8	8.0	9.2	...
20-24	33.9	31.2	59.3	45.0	10.5	15.6	18.2	33.7	6.7	5.7	5.2	...
25-29	18.0	21.0	52.3	42.0	15.2	8.2	18.2	31.7	13.4	18.1	0.9	...
30-59	28.4	31.4	64.3	37.9	12.5	13.4	13.1	21.3	7.9	24.2	2.2	3.2
60 plus	2.1	3.1	62.3	34.3	...	...	15.1	43.8	22.6	22.0	...	...
Males	100.0	100.0	65.9	54.2	14.3	15.4	12.1	20.3	4.5	9.5	3.1	0.7
15-19	15.5	15.5	64.9	60.3	5.4	12.8	11.3	13.7	3.6	13.2	14.9	...
20-24	34.8	35.2	68.6	51.9	14.1	22.9	14.1	21.1	0.8	4.1	2.4	...
25-29	14.6	19.1	53.1	54.0	27.3	10.4	12.0	21.4	7.6	14.2	...	...
30-59	31.5	24.2	70.1	58.5	14.6	13.9	10.0	16.6	5.3	8.2	...	2.7
60 plus	3.4	6.0	59.2	34.3	...	...	16.3	43.8	24.5	22.0	...	...
Females	100.0	100.0	52.8	30.5	8.4	12.3	21.2	35.0	12.0	20.8	5.5	1.4
15-19	20.2	11.0	61.3	40.8	16.7	39.7	18.5	19.5	...	...	3.6	...
20-24	32.7	26.9	46.5	35.1	5.5	5.3	23.8	51.6	23.8	8.0	9.1	...
25-29	22.3	23.1	51.6	31.3	4.9	6.2	23.6	40.9	23.6	21.2	...	...
30-59	24.4	39.0	54.7	24.0	8.9	13.0	18.2	24.4	12.3	34.9	5.9	3.7
60 plus	0.4	...	100.0	...	...	...	...	...	...	...	...	...

a/ Excluding new entrants to the labor force.

Sources: Comptroller General and World Bank estimates.

Table 1.12: EMPLOYMENT: ANNUAL GROWTH RATES BY SECTOR AND AREA, 1960-82

SECTOR	1960-69		1970-73		1974-77		1977-79		1979-82	
	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA	NATIONAL	MET AREA
TOTAL	3.8	n.a.	2.3	3.7	-1.2	-1.5	5.8	8.5	2.1	1.0
Agriculture	0.5	n.a.	n.a.	-3.5	-0.5	-3.6	3.6	12.3	0.5	-2.4
Manufacturing	7.8	n.a.	n.a.	4.2	-1.4	-2.1	5.2	6.0	0.4	-2.5
Construction	8.0	n.a.	n.a.	16.1	-8.3	-9.9	12.5	16.0	7.7	5.4
Utilities	13.0	n.a.	n.a.	10.4	4.5	4.3	6.0	7.5	6.4	5.3
Commerce	7.4	n.a.	n.a.	3.6	-0.9	-1.0	5.0	5.6	1.4	-0.9
Transport, Storage and Communications	6.6	n.a.	n.a.	6.6	0.0	0.3	6.8	7.6	6.5	7.0
Financial Services a/	b/	n.a.	n.a.	9.5	0.1	-0.2	12.2	13.0	7.6	6.6
Other Services	6.0	n.a.	n.a.	3.4	-0.8	1.2	9.4	10.7	2.3	1.2
Canal Area	2.3	n.a.	n.a.	-3.8	-3.9	-3.9	-2.3	-2.2	-4.1	-4.1

a/ Includes real estate.
b/ Included under Other Services.

Sources: Comptroller General and World Bank estimates.

Table 1.13: EMPLOYMENT ELASTICITIES BY SECTOR, 1960-82

(Elasticity)

SECTOR	1960-82	1960-69	1970-82	1970-78	1979-82
Whole Economy	0.46	0.46	0.48	0.40	0.46
Economy less Agriculture	0.73	0.77	0.65	0.70	0.56
Manufacturing Industry	0.63	0.77	0.61	0.18	0.32
Construction	0.89	1.09	0.54	0.17	0.49
Electricity, Gas and Water	0.79	1.14	0.52	0.76	1.52
Transport, Storage and Communications	0.61	0.69	0.55	0.61	0.53
Commerce	0.84	0.86	0.61	1.00	1.00
Financial Services and Real Estate	a/	a/	1.16	1.27	1.85
Other Services b/	0.79	0.69	0.60	1.40 c/	0.71
Agriculture, Fishing and Livestock	-0.10	-0.02	-0.11	-0.40	0.36

a/ Included under Other Services.
b/ Includes public administration.
c/ Includes the effects of the Emergency Employment Program.

Sources: Comptroller General and World Bank estimates.

Table 1.14: EMPLOYMENT ELASTICITIES, "REQUIRED" c/ AND ACTUAL RATES OF GROWTH OF REAL VALUE ADDED, 1960-1982

PERIOD	RATE OF GROWTH a/ OF LABOR FORCE	RATE OF GROWTH a/ OF EMPLOYMENT	EMPLOYMENT ELASTICITY b/	RATE OF GROWTH a/ OF REAL VALUE ADDED	"REQUIRED" c/ RATE OF GROWTH OF REAL VALUE ADDED
The Economy					
1960 - 1982	3.3	2.9	0.48	6.1 d/	7.2
1960 - 1969	2.9	3.6	0.46	8.1	6.5
1970 - 1977	3.2	1.2	0.32	3.8	10.0
1978 - 1982	3.7	3.0	0.65	4.6 d/	8.6
The Economy Less Agriculture					
1960 - 1982	4.1	4.6	0.71	6.5 d/	5.6
1960 - 1969	4.1	6.4	0.77	8.6	5.3
1970 - 1977	4.1	2.3	0.58	4.0	6.3
1978 - 1982	4.3	3.2	0.62	5.2 d/	6.9

a/ All rates of growth are in average percent per annum.
b/ Calculated by least squares method.
c/ Rate of growth required to absorb all additions to the labor force.
d/ Adjusted to exclude the effects of incorporating the Panama Canal into the GDP in 1980.

Source: Comptroller General and World Bank estimates.

Table 1.15: EMPLOYMENT BY CATEGORY, 1976-82

YEAR	TOTAL EMPLOYMENT		PUBLIC SECTOR EMPLOYEES		CANAL AREA EMPLOYEES		EMPLOYEES OF PRIVATE COMPANIES		EMPLOYEES OF COOPERATIVES a/		SELF-EMPLOYED b/	
	NUMBER (000)	PERCENT OF TOTAL	NUMBER (000)	PERCENT OF TOTAL	NUMBER (000)	PERCENT OF TOTAL	NUMBER (000)	PERCENT OF TOTAL	NUMBER (000)	PERCENT OF TOTAL	NUMBER (000)	PERCENT OF TOTAL
1976	471.5	100.0	99.6	21.1	17.5	3.7	174.7	37.1	c/	c/	179.7	38.1
1977	470.5	100.0	101.9	21.7	18.4	3.7	187.3	39.9	4.5	1.0	158.4	33.7
1978	499.2	100.0	127.2	25.5	18.3	3.6	188.6	37.8	2.6	0.5	162.5	32.6
1979	527.0	100.0	128.1	24.3	17.3	3.3	192.2	36.5	2.7	0.5	186.7	35.4
1982 d/	561.1	100.0	136.5	24.3	15.5	2.8	216.3	38.5	c/	c/	192.8	34.4

a/ Including community organizations.

b/ Including owners and directors of companies.

c/ Included among self-employed.

d/ Data for 1980 and 1981 are not available.

Source: Comptroller General.

Table 1.16: PROJECTED EMPLOYMENT INDICATORS, 1979-89

YEAR	NATIONAL Labor Force	NATIONAL Economically Active Population	NATIONAL Employed	NATIONAL Unemployed	NATIONAL Unemployment Rate (%)	METROPOLITAN AREA Labor Force	METROPOLITAN AREA Economically Active Population	METROPOLITAN AREA Employed	METROPOLITAN AREA Unemployed	METROPOLITAN AREA Unemployment Rate (%)
A. With labor market rigidities										
1979 a/	1,003.0	577.8	527.0	50.7	8.8	574.3	342.5	301.8	40.7	11.9
1982 b/	1,140.6	612.6	561.1	51.5	8.4	636.0	346.2	311.0	35.2	10.2
1983 c/	1,183.1	661.8	599.0	62.8	9.5	661.4	375.8	331.1	44.7	11.9
1984	1,226.8	685.8	604.5	81.3	11.9	687.9	391.5	334.8	56.7	14.5
1985	1,272.1	711.1	614.2	96.9	13.6	715.4	407.1	341.4	65.7	16.1
1986	1,319.0	737.3	626.9	110.4	15.0	744.0	423.4	350.0	73.4	17.3
1987	1,365.2	763.1	641.3	121.8	16.0	773.8	440.4	359.8	80.6	18.3
1988	1,411.6	789.1	656.0	133.1	16.9	804.7	458.0	369.9	88.1	19.2
1989	1,458.2	815.1	671.1	144.0	17.7	836.9	476.2	380.3	95.9	20.2
B. Without labor market rigidities										
1979	1,003.0	577.8	527.0	50.7	8.8	574.3	342.5	301.8	40.7	11.9
1982	1,140.6	612.6	561.1	51.5	8.4	636.0	346.2	311.0	35.2	10.2
1983	1,183.1 b/	661.8 b/	599.0 b/	62.8 b/	9.5	661.4	375.8	331.1	44.7	11.9
1984	1,226.8	685.8	604.5	81.3	11.9	687.9	391.5	334.8	56.7	14.5
1985	1,272.1	711.1	616.3	94.8	13.3	715.4	407.1	342.5	64.6	15.9
1986	1,319.0	737.3	634.6	102.7	13.9	744.0	423.4	354.4	69.0	16.3
1987	1,365.2	763.1	655.5	107.6	14.1	773.8	440.4	368.0	72.4	16.4
1988	1,411.6	789.1	678.4	110.7	14.0	804.7	458.0	382.2	75.8	16.6
1989	1,458.2	815.1	704.5	110.6	13.6	836.9	476.2	396.9	79.3	16.7

a/ Case A projections assume constant employment elasticities of 0.46 for the economy as a whole and 0.56 for the Metropolitan Area. Case B assumes employment elasticities increase as follows:

1) National: 1985,0.56;1986,0.66;1987,0.66;1988,0.70;1989,0.77.
2) Metropolitan: 1985,0.66;1986 through 1989,0.77.

Both projections assume the following real rates of growth of GDP: 1984, 2%; 1985, 3.5%; 1986, 4.5%; 1987-89, 5%.

b/ Actual figures.

c/ Actual preliminary figures for National, projected for Metropolitan Area.

Source: World Bank estimates.

Table 1.17: COLLECTIVE BARGAINING CONTRACTS, 1979-83

	1979	1980	1981	1982	1983
	I. Number of Contracts				
Total number	170	108	46	90	100
Agriculture, forestry, and fisheries	4	3	3	1	1
Mining	0	0	0	0	1
Manufacturing	94	66	14	51	53
Construction	2	0	0	2	4
Commercial--retail, wholesale, hotels, and restaurants	48	34	25	23	31
Financial services	0	0	0	0	0
Transport and communication	9	2	2	7	3
Other services	13	3	2	6	7
	II. Average Percentage Wage Increase				
Total a/	7	8	7	11	7
Agriculture, forestry and fisheries	3	4	5	6	6
Mining	0	0	0	0	n.a.
Manufacturing	7	7	6	8	7
Construction	12	12	7	15	5
Commercial--retail, wholesale, hotels, and restaurants	7	7	6	6	4
Financial services	0	0	0	0	0
Transport and communication	14	13	12	17	11
Other services	9	7	7	9	7

a/ Simple arithmetic average.

Source: Ministry of Labor.

II.

NATIONAL ACCOUNTS

Table 2.1: 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
Domestic Factor Income	889.4	1,001.4	1,094.3	1,258.0	1,436.7	1,609.4	1,709.9	1,776.3	2,101.6	2,391.2	3,038.5	3,316.7	3,665.5
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
GROSS DOMESTIC PRODUCT	1,021.2	1,151.9	1,264.9	1,446.6	1,654.1	1,840.8	1,956.3	2,069.8	2,452.5	2,800.2	3,558.8	3,878.0	4,287.1
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
GROSS DOMESTIC EXPENDITURE	1,021.2	1,151.9	1,264.9	1,446.6	1,654.1	1,840.8	1,956.3	2,069.8	2,452.5	2,800.2	3,558.8	3,878.0	4,287.1

Source: Comptroller General.

Table 2.2: DISPOSABLE NATIONAL INCOME AND ITS ASSIGNMENT, 1970-82

(Millions of Balboas)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 a/
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	1,088.1	1,242.6	1,431.7	1,693.8	2,009.5	2,107.4	2,286.9
Savings	168.8	215.4	238.8	303.4	252.2	306.3	311.3	226.2	327.3	274.7	521.0	630.6	629.6
Assignment of Disposable Income	939.9	1,060.8	1,163.6	1,321.1	1,505.5	1,713.7	1,786.2	1,880.9	2,241.9	2,535.7	3,211.0	3,550.9	3,881.8
Domestic Factor Income	889.4	1,001.4	1,094.3	1,258.0	1,436.7	1,609.4	1,709.9	1,776.3	2,101.6	2,391.2	3,038.5	3,316.7	3,665.5
Employees' Compensation	511.0	594.0	680.8	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	-54.4	-19.5	-55.5	-63.1	-57.4	-102.8	-172.8	-137.2	-198.9
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
Other Transfers from the Rest of the World (Net)	-1.8	-1.6	-1.9	-13.2	-13.7	-15.8	-14.2	-14.2	-18.3	-4.4	14.3	31.2	35.2
Disposable Income	939.9	1,060.8	1,163.6	1,321.1	1,505.5	1,713.7	1,786.2	1,880.9	2,241.9	2,535.7	3,211.0	3,550.9	3,881.8

a/ Preliminary

Source: Comptroller General.

Table 2.3: GROSS DOMESTIC INVESTMENT AND ITS FINANCING, 1970-82

(Millions of Balboas)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
GROSS DOMESTIC INVESTMENT													
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
FINANCED BY													
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.

Table 2.4: 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 b/
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	359.3	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	95.0	113.8	142.4	152.6
Construction	68.2	87.4	95.7	125.2	129.2	151.5	164.2	122.6	172.7	194.4	258.4	295.2	380.6
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	496.5
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	668.8
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	273.1	344.2
Canal Area Services a/	75.0	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 a/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	312.4	330.5	353.2
Less: Inputed 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
INDUSTRY SUBTOTAL	845.2	956.4	1,043.1	1,205.9	1,369.2	1,531.4	1,629.8	1,725.4	2,038.9	2,302.4	2,996.8	3,283.5	3,617.5
Government Services	117.8	132.9	158.3	174.4	212.2	241.8	260.8	277.6	329.7	399.4	446.4	468.5	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
GROSS DOMESTIC PRODUCT AT MARKET PRICES	1,021.2	1,151.9	1,264.9	1,446.6	1,654.1	1,840.8	1,956.3	2,069.8	2,452.5	2,800.2	3,558.8	3,878.0	4,287.1

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

Source: Comptroller General.

Table 2.5: 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 b/
Agriculture, Forestry, and Fishing	149.1	160.7	155.4	157.1	147.9	158.6	167.1	175.5	189.1	181.0	173.7	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	73.8	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	102.0	105.9	109.9	118.3	127.8	142.6	150.1	161.8	165.1
Services to Panama Canal Area a/	75.0	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 a/	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: Inputed 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
INDUSTRY SUBTOTAL	845.2	929.7	969.4	1,034.8	1,060.2	1,075.7	1,096.1	1,103.3	1,219.1	1,277.2	1,498.8	1,549.7	1,639.5	1,629.9
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	242.3
Domestic Services	21.3	21.6	21.0	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
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	1,922.4

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

Source: Comptroller General.

Table 2.6: 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 a/	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 a/	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
Inputed Commission of the Banking Sector	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
INDUSTRY SUBTOTAL	10.0	4.3	6.7	2.5	1.5	1.9	0.7	10.5	4.8	17.4	3.4	5.8	-0.6
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
GROSS DOMESTIC PRODUCT	9.6	4.6	5.4	2.4	1.7	1.7	1.1	9.8	4.5	15.1 b/	4.2	5.5	0.2

a/ In 1980 the Panama Canal Treaties became effective which incorporated Canal activities into the GDP accounts.
b/ If the Canal activities had not been incorporated into the GDP accounts in 1980, change would have been 5.3 percent.

Source: Office of the Comptroller General.

Table 2.7: 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
GROSS DOMESTIC EXPENDITURE	12.8	9.8	14.4	14.3	11.3	6.3	5.8	18.5	14.2	27.1	9.0	10.6

Source: Statistical Appendix Table 2.1

Table 2.8: 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	201.9	205.8	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	735.3	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	365.3	426.1	445.3
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
Exports of Goods and Non Factor Services	388.2	404.7	409.8	429.2	459.2	467.0	455.3	503.7	538.8	531.6	764.5	740.7	795.9
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	667.5	665.9	665.6
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	105.4	112.4	123.0	165.9	185.3	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.

Table 2.9: GROSS 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 a/
GROSS DOMESTIC INVESTMENT	284.3	349.9	402.5	485.7	556.1	567.4	618.8	490.9	651.7	785.7	986.9	1,167.2	1,231.4
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	133.8	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
PUBLIC SECTOR	70.4	70.1	166.4	118.4	176.7	283.7	399.9	277.4	357.9	274.9	379.8	349.9	504.3
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
PRIVATE SECTOR	213.9	279.8	236.1	367.3	379.4	283.7	218.9	213.5	293.8	510.8	607.1	817.3	727.1
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	46.4	61.5	70.4	73.4	41.1	41.8	51.5	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	126.3	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	30.6	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	52.0	83.9	11.8	-1.8	39.9	40.4	104.3	93.3	84.0	-14.8

a/ Preliminary.

Source: Comptroller General.

Table 2.10: GROSS DOMESTIC INVESTMENT: COMPOSITION BY TYPE AND SECTOR, 1970 PRICES, 1970-82
(Millions of 1970 Balboas)

Type of Investment and Sector	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 a/
GROSS DOMESTIC INVESTMENT	284.3	348.9	399.4	414.6	393.6	379.7	376.1	261.5	326.6	352.1	411.6	463.4	445.9
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	127.4	87.3	87.1	99.9	101.4	75.5	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
PUBLIC SECTOR	70.4	69.0	167.8	102.3	124.2	185.7	232.1	152.1	180.4	125.2	162.3	133.7	182.2
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	5.1	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
PRIVATE SECTOR	213.9	279.9	231.6	312.3	269.4	194.0	144.0	109.4	146.2	226.9	249.3	329.7	263.7
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	22.0	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	6.2	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	66.6	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	-1.8

a/ Preliminary.

Source: Comptroller General.

Table 2.11: 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
	1970					
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	14.8	8.3	0.2	7.0	0.7
9	Other	1.1	0.2	...	0.9	...
	TOTAL	152.3	116.1	1.7	37.7	3.2
	1971					
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	180.2	130.9	2.0	50.7	3.4
	1972					
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	220.5	155.2	3.0	73.6	5.3

Table 2.11: 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
	1973					
1 & 2	General Public Services and Defense	87.2	45.3	...	42.1	0.2
3	Education	71.3	62.6	0.7	9.0	1.0
4	Health	24.4	19.0	0.1	6.4	
5	Social Security and Social Welfare	38.4	23.9	1.0	14.4	0.9
6	Housing and Urban and Rural Improvements	3.4	2.9	0.1	0.6	0.2
7	Other Social and Community Services	5.5	3.2	0.6	1.8	0.1
8	Economic Services	19.2	14.3	0.7	5.8	1.6
9	Other	0.7	...	...	0.7	...
	TOTAL	250.1	171.2	3.2	80.8	5.1
	1974					
1 & 2	General Public Services and Defense	109.5	53.7	...	56.0	0.2
3	Education	78.7	71.9	0.7	6.7	0.6
4	Health	27.5	20.9	0.1	8.0	1.5
5	Social Security and Social Welfare	38.6	28.1	1.1	10.3	0.9
6	Housing and Urban and Rural Improvements	7.9	6.1	0.1	1.9	0.2
7	Other Social and Community Services	4.7	2.9	...	2.0	0.2
8	Economic Services	23.3	17.1	1.2	7.0	2.0
9	Other	9.1	8.3	...	0.8	...
	TOTAL	299.3	209.0	3.2	92.7	5.6
	1975					
1 & 2	General Public Services and Defense	122.6	61.2	...	61.6	0.2
3	Education	91.3	82.7	0.8	8.2	0.4
4	Health	27.1	18.7	0.1	9.7	1.4
5	Social Security and Social Welfare	52.3	33.1	1.3	18.7	0.8
6	Housing and Urban and Rural Improvements	12.5	9.8	0.0	2.9	0.2
7	Other Social and Community Services	6.2	4.1	0.7	1.7	0.3
8	Economic Services	31.6	19.5	0.8	13.1	1.8
9	Other	9.7	9.0	...	0.7	...
	TOTAL	353.3	238.1	3.7	116.6	5.1

Table 2.11: 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
	1976					
1 & 2	General Public Services and Defense	142.1	63.0	...	79.4	0.3
3	Education	96.1	89.2	0.8	7.5	1.4
4	Health	34.8	24.2	0.1	11.6	1.1
5	Social Security and Social Welfare	61.8	38.3	1.4	22.3	0.7
6	Housing and Urban and Rural Improvements	13.8	10.5	0.3	3.2	0.2
7	Other Social and Community Services	5.1	3.5	0.7	1.3	0.4
8	Economic Services	22.7	18.2	0.8	5.8	2.1
9	Other	10.2	9.7	...	0.5	...
	TOTAL	386.1	256.6	4.1	131.6	6.2
	1977					
1 & 2	General Public Services and Defense	146.9	68.3	...	78.9	0.3
3	Education	103.4	95.7	0.8	7.7	0.8
4	Health	36.5	24.7	0.1	12.9	1.2
5	Social Security and Social Welfare	66.4	41.2	1.9	24.2	0.9
6	Housing and Urban and Rural Improvements	12.9	9.8	0.4	3.0	0.3
7	Other Social and Community Services	5.9	3.8	0.7	1.8	0.4
8	Economic Services	29.7	19.1	1.2	12.0	2.6
9	Other	10.4	10.0	...	0.4	...
	TOTAL	412.1	272.6	5.1	140.9	6.5
	1978					
1 & 2	General Public Services and Defense	184.3	102.1	...	82.4	0.2
3	Education	114.9	101.8	1.2	12.9	1.0
4	Health	40.0	26.3	0.1	14.8	1.2
5	Social Security and Social Welfare	78.4	44.5	2.9	32.3	1.3
6	Housing and Urban and Rural Improvements	14.5	10.5	0.5	3.7	0.2
7	Other Social and Community Services	6.3	4.0	0.7	1.9	0.3
8	Economic Services	33.7	22.0	2.6	12.6	3.5
9	Other	10.8	10.4	...	0.4	...
	TOTAL	482.9	321.6	8.0	161.0	7.7

Table 2.11: 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
	1979					
1 & 2	General Public Services and Defense	217.2	113.2	...	104.2	0.2
3	Education	133.6	122.2	1.3	11.3	1.2
4	Health	49.6	34.2	0.1	16.6	1.3
5	Social Security and Social Welfare	81.6	53.4	2.7	26.8	1.3
6	Housing and Urban and Rural Improvements	17.8	14.0	0.5	3.6	0.3
7	Other Social and Community Services	7.7	4.8	0.7	2.6	0.4
8	Economic Services	46.7	34.6	5.0	11.8	4.7
9	Other	13.0	12.6	...	0.4	...
	TOTAL	567.2	389.0	10.3	177.3	9.4
	1980					
1 & 2	General Public Services and Defense	275.3	135.1	0.0	141.6	1.4
3	Education	157.0	145.1	1.4	13.7	3.2
4	Health	54.9	40.5	0.1	16.1	1.8
5	Social Security and Social Welfare	101.8	61.5	2.7	39.8	2.2
6	Housing and Urban and Rural Improvements	14.8	10.9	0.3	3.8	0.2
7	Other Social and Community Services	13.2	10.6	0.7	2.3	0.4
8	Economic Services	63.5	32.4	5.1	32.1	6.1
9	Other	...	...	...	...	...
	TOTAL	680.5	436.1	10.3	249.4	15.3
	1981					
1 & 2	General Public Services and Defense	372.8	127.7	0.0	247.3 372.8	2.2
3	Education	174.8	165.0	1.4	12.2	3.8
4	Health	57.5	43.3	0.2	16.0	2.0
5	Social Security and Social Welfare	116.2	72.2	2.8	44.1	2.9
6	Housing and Urban and Rural Improvements	12.2	8.4	0.4	3.6	0.2
7	Other Social and Community Services	19.1	13.7	0.7	5.1	0.4
8	Economic Services	60.3	27.9	4.8	33.7	6.1
9	Other	...	...	...	...	...
	TOTAL	812.9	458.2	10.3	362.0	17.6

Table 2.11: 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
	1982 a/					
1 & 2	General Public Services and Defense	444.5	146.7	0.0	301.5	3.7
3	Education	192.0	173.0	1.9	22.2	5.1
4	Health	74.2	49.5	0.5	25.7	1.5
5	Social Security and Social Welfare	134.1	83.6	2.9	50.9	3.3
6	Housing and Urban and Rural Improvements	17.0	9.0	0.4	7.7	0.1
7	Other Social and Community Services	25.3	18.4	0.8	6.6	0.5
8	Economic Services	78.2	40.7	4.9	39.6	7.0
9	Other	...	...	...	...	...
	TOTAL	965.3	520.9	11.4	454.2	21.2

a/ Preliminary.

Source: Comptroller General.

III.

TRADE

Table 3.1: BALANCE OF PAYMENTS, 1975-83
(US$ Millions)

ACCOUNT	1975			1976			1977		
	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE
GOODS AND SERVICES	1238.7	1394.5	-155.8	1249.0	1440.2	-191.2	1403.3	1540.5	-137.2
Merchandise, FOB	330.8	821.9	-491.1	270.6	784.3	-513.7	287.0	784.2	-497.2
Canal Area	64.3	4.8	59.5	49.7	4.3	45.4	51.4	5.6	45.8
Petroleum	34.2	0.0	34.2	27.8	0.0	27.8	24.9	0.0	24.9
Non-Petroleum	30.1	4.8	25.3	21.9	'4.3	17.6	26.5	5.6	20.9
Rest of World	266.5	817.1	550.6	220.9	780.0	-559.1	235.6	778.6	-543.0
Petroleum	94.1	334.5	240.4	38.5	269.2	-230.7	43.4	268.2	-224.8
of which: Bunker and aviation fuel	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Non-Petroleum	172.4	482.6	-310.2	182.4	510.8	-328.4	192.2	510.4	318.2
Non-Monetary Gold	0.1	1.1	-1.0	0.0	6.4	-6.4	0.0	8.1	-8.1
Freight and Insurance	0.1	78.8	-78.7	0.2	70.2	-70.0	0.2	85.5	-85.3
Canal Area	0.0	1.2	-1.2	0.0	0.9	-0.9	0.0	0.9	-0.9
Rest of World	0.1	77.6	-77.5	0.2	69.3	-69.1	0.2	84.6	-84.4
Transportation	155.5	21.2	134.3	144.4	25.3	119.1	136.5	26.3	110.2
Canal Area	0.0	0.3	-0.3	0.0	0.2	-0.2	0.0	0.2	-0.2
Rest of World	155.5	20.9	-134.6	144.4	25.1	119.3	136.5	26.1	110.4
Travel	133.0	32.2	100.8	150.3	33.7	116.6	174.0	34.7	139.3
Canal Area	39.6	0.0	39.6	39.7	0.0	39.7	42.5	0.0	42.5
Rest of World	93.4	32.2	61.2	110.6	33.7	76.9	131.5	34.7	96.8
Investment Income	373.3	395.1	-21.8	411.2	465.0	-53.8	482.2	543.6	-61.4
of which: Interest on Public Debt	0.0	42.2	-42.2	0.0	60.0	-60.0	0.0	79.0	-79.0
Government n.i.e.	18.4	9.9	8.5	17.7	10.3	7.4	18.2	11.9	6.3
Canal Area	10.0	0.0	10.0	9.0	0.0	9.0	8.7	0.0	8.7
Rest of World	8.4	9.9	-1.5	8.7	10.3	-1.6	9.5	11.9	-2.4
Other Services	227.5	34.3	193.2	196.7	242.9	-46.2	305.2	46.2	259.0
Canal Area	115.5	2.9	112.6	112.9	114.2	-1.3	130.0	13.8	116.2
Colon Free Zone	66.7	0.0	66.7	65.8	79.6	-13.8	106.5	0.0	106.5
Rest of World	45.3	31.4	13.9	18.0	49.1	-31.1	68.7	32.4	36.3
UNREQUITED TRANSFERS	23.7	28.7	-5.0	27.3	31.2	-3.9	32.5	34.8	-2.3
Private	15.1	26.4	-11.3	16.1	28.7	-12.6	21.0	32.3	-11.3
Canal Area	14.4	0.0	14.4	15.1	0.0	15.1	18.4	0.0	18.4
Rest of the World	0.7	26.4	-25.7	1.0	28.7	-27.7	2.6	32.3	-29.7
Official	8.6	2.3	6.3	11.2	2.5	8.7	11.5	2.5	9.0
CURRENT ACCOUNT	1262.4	1423.2	-160.8	1276.3	1471.4	-195.1	1435.8	1575.3	-139.5
CAPITAL ACCOUNT	1973.0	1710.5	262.5	1654.9	1323.2	331.7	2668.1	2414.8	253.3
Official Capital	106.7	27.5	79.2	332.1	41.9	290.2	317.0	79.5	237.5
Non-Financial	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Official Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Use of IMF Resources	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Liabilities	52.5	0.0	52.5	2.5	22.5	-20.0	92.3	0.1	92.2
FIVEN	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
PEMEX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other Official Bank Transactions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Reserve Position with IMF	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SDR Holding	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SDR Allocation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Private Capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Direct Investment	7.6	0.0	7.6	10.8	0.0	10.8	10.9	0.0	10.9
Direct Private borrowing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Private Bank's net Monetary Movements	1858.7	1683.0	175.7	1312.0	1281.3	30.7	2340.2	2335.3	4.9
Foreign Asset	0.0	1683.0	-1683.0	0.0	1258.8	-1258.8	0.0	2335.2	2335.2
Foreign Liability	1793.6	0.0	1793.6	1280.5	0.0	1280.5	2246.2	0.0	2246.2
Capital Surplus	12.6	0.0	12.6	29.0	0.0	29.0	1.7	0.0	1.7
UNIDENTIFIED PRIVATE CAPITAL AND NET ERRORS AND OMISSIONS			-101.7			-136.6			-113.8

Table 3.1: BALANCE OF PAYMENTS, 1975-83
(US$ Millions)

ACCOUNT	1978			1979			1980 a/		
	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE
GOODS AND SERVICES	1781.0	1948.9	-167.9	1731.9	2014.6	-282.7	2335.5	2736.3	-400.8
Merchandise, FOB	385.8	857.7	471.9	453.1	1078.6	-625.5	526.0	1342.3	-816.3
Canal Area	63.3	6.5	56.8	84.9	7.3	77.6	0.0	0.0	0.0
Petroleum	27.7	0.0	27.0	45.4	0.0	45.4	0.0	0.0	0.0
Non-Petroleum	35.6	6.5	29.1	39.5	7.3	32.2	0.0	0.0	0.0
Rest of World	322.5	851.2	-528.7	368.1	1071.1	703.0	526.0	1342.3	-816.3
Petroleum	113.8	223.1	-109.3	124.6	324.7	-200.1	233.2	424.4	-191.2
of which: Bunker and aviation fuel	81.4	3.9	77.5	97.0	5.3	91.7	151.4	9.6	141.8
Non-Petroleum	208.7	628.1	-419.4	243.5	746.4	-502.9	292.8	917.9	-625.1
Non-Monetary Gold	0.0	8.3	-8.3	0.1	15.8	-15.7	0.0	1.0	1.0
Freight and Insurance	1.0	99.8	-98.8	0.6	123.2	-122.6	1.1	161.4	-160.3
Canal Area	0.0	0.9	-0.9	0.0	0.7	-0.7	0.0	0.0	0.0
Rest of World	1.0	98.9	-97.9	0.6	122.5	-121.9	1.1	161.4	-160.3
Transportation	26.6	23.7	2.9	51.3	28.5	22.8	396.2	47.0	349.2
Canal Area	0.0	0.3	-0.3	0.0	0.2	-0.2	0.0	0.0	0.0
Rest of World	26.6	23.4	3.2	51.3	28.3	23.0	396.2	47.0	349.2
Travel	197.2	37.2	160.0	213.6	48.4	165.2	168.4	56.0	112.4
Canal Area	53.5	0.0	53.5	50.7	0.0	50.7	0.0	0.0	0.0
Rest of World	143.7	37.2	106.5	162.9	48.4	114.5	168.4	56.0	112.4
Investment Income	794.6	848.7	-54.1	607.0	643.1	-36.1	768.3	1051.5	-283.2
of which: Interest on Public Debt	0.0	131.4	-131.4	0.0	203.0	-203.0	0.0	255.3	-255.3
Government n.i.e.	20.3	19.7	0.6	39.5	15.5	24.0	10.2	16.5	-6.3
Canal Area	8.7	0.0	8.7	15.6	0.0	15.6	0.0	0.0	0.0
Rest of World	11.6	19.7	-8.1	23.9	15.5	8.4	10.2	16.5	-6.3
Other Services	355.5	53.8	301.7	366.7	61.5	305.2	465.3	60.6	404.7
Canal Area	151.6	15.4	136.2	134.8	15.9	118.9	0.0	0.0	0.0
Colon Free Zone	125.9	0.0	125.9	159.8	0.0	159.8	220.3	0.0	220.3
Rest of World	78.0	38.4	39.6	72.1	45.6	26.5	245.0	60.6	184.4
UNREQUITED TRANSFERS	36.4	38.6	-2.2	57.0	42.7	14.3	71.1	58.4	12.7
Private	20.8	35.9	-15.1	40.5	39.7	0.8	0.3	54.0	-53.7
Canal Area	18.3	0.0	18.3	37.9	0.0	37.9	0.0	0.0	0.0
Rest of World	2.5	35.9	-33.4	2.6	39.7	-37.1	0.3	54.0	-53.7
Official	15.6	2.7	12.9	16.5	3.0	13.5	70.8	4.4	66.4
CURRENT ACCOUNT	1817.4	1987.5	-170.1	1788.9	2057.3	-268.4	2406.6	2794.7	-388.1
CAPITAL ACCOUNT	2388.9	2003.1	385.8	2232.4	1809.9	422.5	1280.0	868.0	412.0
Official Capital	1021.3	534.8	486.5	438.2	243.9	194.3	487.1	263.3	223.8
Non-Financial	1008.7	529.2	479.5	427.4	231.3	196.1	470.6	243.0	227.6
Official Banks	12.6	5.6	7.0	10.8	12.6	-1.8	16.5	20.3	-3.8
Use of IMF Resources	1.3	0.0	1.3	0.0	11.1	-11.1	0.0	18.4	-18.4
Other Liabilities	11.3	5.6	5.7	10.8	1.5	9.3	16.5	1.9	14.6
FIVEN	0.0	0.0	0.0	4.0	0.0	4.0	6.0	0.0	6.0
PEMEX	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	11.3	5.6	5.7	6.8	1.5	5.3	10.5	1.9	8.6
Other Official Bank Transactions	1.4	84.2	-82.8	55.9	0.0	55.9	46.1	7.0	39.1
Reserve Position with IMF	0.0	4.9	-4.9	1.6	0.0	1.6	0.0	7.0	-7.0
SDR Holding	0.3	0.0	0.3	n.a.	n.a.	n.a.	3.8	0.0	3.8
SDR Allocation	1.1	0.0	1.1	6.4	0.0	6.4	5.2	0.0	5.2
Other	0.0	79.3	-79.3	47.9	0.0	47.9	37.1	0.0	37.1
Private Capital	1366.2	1384.1	-17.9	1738.3	1565.1	173.2	746.8	597.7	149.1
Direct Investment	0.0	2.5	-2.5	58.0	0.0	58.0	54.8	0.0	54.8
Direct Private borrowing	0.0	0.0	0.0	30.9	0.0	30.9	21.1	12.0	9.1
Private Bank's Net Monetary Movements	1366.2	1381.6	-15.4	1649.4	1565.1	84.3	670.9	585.7	85.2
Foreign Asset	0.0	1428.7	-1428.7	0.0	6614.6	-1614.6	507.4	0.0	507.4
Foreign Liability	1328.5	7.1	1321.4	1550.8	-49.5	1600.3	-47.9	585.7	-633.6
Capital Surplus	37.7	0.0	37.7	96.6	0.0	96.6	211.4	0.0	211.4
UNIDENTIFIED PRIVATE CAPITAL AND NET ERRORS AND OMISSIONS			-215.7			-154.1			-23.9

TABLE 3.1: BALANCE OF PAYMENTS, 1975-83
(US$ Millions)

ACCOUNT	1981			1982			1983		
	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE	CREDIT	DEBIT	BALANCE
GOODS AND SERVICES	2569.2	3012.5	-443.3	2724.0	3196.6	-472.6	3074.8	3299.6	-224.8
Merchandise, FOB	493.9	1469.5	-975.6	488.2	1496.3	-1008.1	436.7	1353.0	-916.3
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Petroleum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-Petroleum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of World	493.9	1469.5	-975.6	488.2	1496.3	-1008.1	436.7	1353.0	-916.3
Petroleum	208.9	428.5	-219.6	166.6	408.1	-241.5	131.2	384.5	-253.3
of which: Bunker and aviation fuel	150.5	10.7	139.8	104.0	11.8	92.2	95.4	9.9	85.5
Non-Petroleum	285.0	1041.0	-756.0	321.6	1088.2	-766.2	305.5	968.5	-663.0
Non-Monetary Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	-0.2
Freight and Insurance	1.3	176.7	-175.4	1.3	159.1	-157.8	1.3	138.3	-137.0
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of World	1.3	176.7	-175.4	1.3	159.1	-157.8	1.3	138.3	-137.0
Transportation	442.6	51.3	391.3	523.2	54.3	468.9	648.0	49.3	598.7
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of World	442.6	51.3	391.3	523.2	54.3	468.9	648.0	49.3	598.7
Travel	170.8	65.1	105.7	173.8	80.6	93.2	171.4	71.4	100.0
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of World	170.8	65.1	105.7	173.8	80.6	93.2	171.4	71.4	100.0
Investment Income	878.7	1154.3	-275.6	941.3	1313.4	-372.1	1269.8	1589.9	-320.1
of which: Interest on Public Debt	0.0	283.5	-283.5	0.0	350.3	-350.3	0.0	288.5	-288.5
Government n.i.e.	11.5	20.0	-8.5	12.9	25.5	-12.6	11.5	30.9	-19.4
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of World	11.5	20.0	-8.5	12.9	25.5	-12.6	11.5	30.9	-19.4
Other Services	570.4	75.6	494.8	583.3	67.4	515.5	536.1	66.6	469.5
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Colon Free Zone	258.1	0.0	253.1	220.9	0.0	220.9	164.8	0.0	164.8
Rest of World	312.3	58.8	203.2	362.4	67.4	295.0	371.3	66.6	304.7
UNREQUITED TRANSFERS	84.8	55.7	29.1	99.0	63.9	35.1	111.0	71.4	39.6
Private	0.9	49.8	-48.9	2.6	57.6	-55.0	2.9	63.0	-60.1
Canal Area	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rest of World	0.9	49.8	-48.9	2.6	57.6	-55.0	2.9	63.0	-60.1
Official	83.9	5.9	78.0	96.4	6.3	90.1	108.1	8.4	99.7
CURRENT ACCOUNT	2654.0	3068.2	-414.2	2823.0	3260.5	-437.5	3185.8	3371.0	-185.2
CAPITAL ACCOUNT	1940.1	1469.7	470.4	2267.0	1702.7	564.3	3063.5	2897.7	165.8
Official Capital	520.3	316.4	203.9	910.0	400.9	509.1	564.4	268.8	295.6
Non-Financial	376.6	315.0	61.6	824.3	388.5	435.8	408.4	265.2	143.2
Official Banks	143.7	1.4	142.3	85.7	12.4	73.3	156.0	3.6	152.4
Use of IMF Resources	70.6	0.0	70.6	0.0	9.5	-9.5	108.7	0.0	108.7
Other Liabilities	73.1	1.4	71.7	85.7	2.9	82.8	47.3	3.6	43.7
FIVEN	43.2	0.0	43.2	34.6	0.0	34.6	25.5	0.0	25.5
PEMEX	18.2	0.0	18.2	37.7	0.0	37.7	15.0	0.0	15.0
Other	11.7	1.4	10.3	13.4	2.9	10.5	6.8	3.6	3.2
Other Official Bank Transactions	13.3	50.2	-36.9	22.9	19.9	3.0	22.3	110.5	-88.2
Reserve Position with IMF	10.3	0.0	10.3	0.0	0.0	0.0	0.0	9.1	-9.1
SDR Holding	0.0	1.9	-1.9	0.0	0.9	-0.9	3.8	0.0	3.8
SDR Allocation	3.0	0.0	3.0	0.0	1.7	-1.7	0.0	1.4	-1.4
Other	0.0	48.3	-48.3	22.9	17.3	3.0	18.5	100.0	-81.5
Private Capital	1406.5	1103.1	303.4	1334.1	1281.9	52.2	2476.8	2518.4	-41.6
Direct Investment	53.0	0.0	53.0	53.4	0.0	53.4	52.1	0.0	52.1
Direct Private borrowing	164.0	40.0	124.0	126.0	35.7	90.3	0.0	99.2	-99.2
Private Bank's net Monetary Movements	1189.5	1063.1	126.4	1154.7	1246.2	-91.5	2424.7	2419.2	5.5
Foreign Asset	0.0	1069.9	-1069.9	0.0	1246.2	-1246.2	2432.1	0.0	2432.1
Foreign Liability	1104.4	-6.8	1111.2	884.4	0.0	884.4	-42.7	2419.2	-2461.9
Capital Surplus	85.1	0.0	85.1	270.3	0.0	270.3	35.5	0.0	35.5
UNIDENTIFIED PRIVATE CAPITAL AND NET ERRORS AND OMISSIONS			-56.2			-126.8			19.4

Table 3.2: AGRICULTURAL AND OTHER EXPORTS a/, 1970-83

Export Unit	1970	1971	1972	1973	1974	1975	1976
Bananas							
millions of boxes b/	21.0	22.9	23.6	23.1	18.5	20.6	10.6
million dollars	60.8	62.9	64.7	63.8	49.5	59.5	61.5
unit value (dollars) c/	2.90	2.74	2.74	2.76	2.68	2.88	2.98
Coffee							
thousand metric tons	1.6	1.8	2.5	1.8	1.4	1.6	1.9
million dollars	1.7	1.6	2.5	2.1	2.1	2.3	3.4
unit value (dollars/kilo)	1.09	0.87	1.02	1.17	1.47	1.44	1.77
Sugar							
thousand metric tons	32.0	40.5	35.4	45.5	58.4	80.8	84.4
million dollars	5.0	6.3	5.9	8.8	27.5	49.4	28.3
unit value (cents/kilo)	15.6	15.6	16.7	19.3	47.1	61.1	33.5
Cacao							
metric tons	19	n.a.	461	452	453	723	779
thousand dollars	12	n.a.	250	296	624	848	1,339
unit value (dollars/kilo)	0.62	n.a.	0.54	0.65	1.38	1.17	1.72
Red Meat							
thousand metric tons	2.1	1.2	2.4	1.0	1.2	1.2	3.0
million dollars	2.2	1.4	3.1	1.6	1.8	1.6	3.8
unit value (dollars/kilo)	1.02	1.15	1.30	1.59	1.47	1.28	1.27
Shrimp							
thousand metric tons	5.0	5.0	4.5	4.4	4.2	4.4	5.1
million dollars	10.2	12.0	14.6	16.7	15.2	19.0	33.5
unit value (dollars/kilo)	2.01	2.40	3.24	3.79	3.58	4.29	6.55
Fish Meal							
thousand metric tons	4.6	5.8	7.3	7.8	3.9	7.0	15.4
million dollars	0.8	1.0	1.4	3.1	1.3	1.7	4.5
unit value (cents/kilo)	17.1	16.8	19.6	40.0	33.3	23.9	28.9
Petroleum Products d/							
million gallons	276.9	290.1	193.6	155.1	152.5	301.9	103.6
thousand dollars	21,465	25,126	19,266	21,929	52,797	94,015	38,540
Other Exports e/	6,075	4,546	9,928	18,674	37,316	39,017	44,988
TOTAL EXPORTS	108,201	114,777	121,770	136,961	188,207	267,332	217,847

Export Unit	1977	1978	1979	1980	1981	1982	1983
Bananas							
millions of boxes b/	22.4	34.6	31.1	27.9	31.4	31.0	35.9
million dollars	66.5	71.9	65.7	61.6	69.2	66.0	75.0
unit value (dollars) c/	2.96	2.08	2.11	2.22	2.20	2.13	2.09
Coffee							
thousand metric tons	1.4	2.4	2.8	3.1	5.1	4.4	5.8
million dollars	5.5	8.9	9.6	10.2	13.5	12.4	16.0
unit value (dollars/kilo)	3.99	3.71	3.43	3.29	2.65	2.75	2.74
Sugar							
thousand metric tons	114.4	118.7	135.4	130.3	97.1	107.0	120.0
million dollars	21.9	20.3	26.1	65.8	52.6	23.7	41.3
unit value (cents/kilo)	19.2	17.1	19.2	50.5	54.2	22.[illegible]	34.4
Cacao							
metric tons	610	1,025	1,283	837	48	0.0	75
thousand dollars	2,115	3,122	3,936.8	2,118.1	94.7	0.0	154
unit value (dollars/kilo)	3.47	3.05	3.08	2.53	1.99	n.a.	2.07
Red Meat							
thousand metric tons	1.1	0.3	0.6	1.3	2.2	4.5	2.0
million dollars	1.5	0.5	1.5	3.1	5.1	9.4	4.1
unit value (dollars/kilo)	1.39	1.67	2.36	2.33	2.28	2.09	2.08
Shrimp							
thousand metric tons	5.0	4.8	5.5	6.2	6.4	6.8	6.1
million dollars	30.0	30.2	45.0	43.7	42.7	52.9	51.4
unit value (dollars/kilo)	5.94	6.29	8.18	7.16	6.66	7.78	8.46
Fish Meal							
thousand metric tons	30.4	10.4	22.6	28.1	11.7	4.4	14.8
million dollars	10.5	4.2	7.9	10.1	4.3	1.6	5.5
unit value (cents/kilo)	34.4	40.3	34.9	35.9	36.7	36.4	36.9
Petroleum Products d/							
million gallons	117.7	186.2	142.2	114.0	72.3	109.0	57.0
thousand dollars	43,324	60,115	72,383	81,800	58,400	70,300	35,800
Other Exports e/	40,361	n.a.	n.a.	34,600	34,200	73,200	58,700
TOTAL EXPORTS	221,535	246,815	294,739	353,377	319,420	310,239	303,545

a/ Excludes exports of merchandise to Canal Zone and from Colon Free Zone.
b/ 1970 through 1977 millions of bunches.
c/ 1970 through 1977 dollar per bunch.
d/ Excludes petroleum products exported for bunkering ships in Canal Zone.
e/ Includes adjustments made for balance of payments consolidation and reexports.

Source: Comptroller General and IMF.

TABLE 3.3: TERMS OF TRADE, 1970-83

	Unit Value 1978=100		Terms of Trade 1978=100
Year	Exports a/	Imports a/	
1970	54.62	50.27	108.65
1971	57.55	50.54	113.87
1972	61.41	52.49	116.99
1973	67.21	59.42	113.11
1974	90.63	83.16	108.98
1975	101.23	95.10	106.45
1976	100.52	97.93	105.70
1977	99.89	104.13	95.93
1978	100.00	100.00	100.00
1979	115.55	121.35	95.22
1980	111.96	126.90	88.23
1981	120.32	139.01	86.55
1982 b/	115.08	141.53	81.31
1983 b/	117.38	142.97	82.10

a/ Includes petroleum
b/ Preliminary

Source: Comptroller General.

Table 3.4: PETROLEUM TRADE, 1977-83

(Values in US$ Millions, Volumes in Millions of Barrels, Unit Values in US$ per Barrel)

	1977	1978	1979	1980	1981	1982	1983
Total imports, c.i.f.	283.1	229.2	334.9	441.7	441.6	398.5	371.5
Crude and partially refined oil							
Value	268.1	216.7	316.4	407.9	361.0	373.5	333.2
From: Ecuador	128.1	140.4	165.5	33.8	17.9	86.4	109.9
Venezuela	66.5	53.3	60.1	105.4	120.8	152.5	109.7
Saudi Arabia	64.5	11.0	90.8	268.7	119.2	0.0	0.0
Mexico	0.0	0.0	0.0	0.0	103.1	134.4	113.7
Other countries	9.0	12.0	0.0	0.0	0.0	0.0	0.0
Volume	20.5	16.7	15.6	13.8	10.7	11.8	11.8
Unit value	13.1	13.0	20.3	29.5	33.8	31.8	28.2
Refined products	15.0	12.5	18.5	33.8	80.6	25.0	38.3
Total exports, f.o.b.	181.3	141.6	170.0	233.3	209.1	166.6	131.2
To Canal Zone							
Value	24.9	27.7	45.4	50.7	15.9	56.1	32.8
Volume	1.9	2.5	2.4	1.7	0.4	2.0	1.3
Unit value	13.0	13.2	18.9	29.1	37.0	27.5	26.0
To other countries							
Value	42.2	32.4	27.0	31.1	42.5	14.1	3.0
Volume	2.7	2.3	1.0	1.0	1.3	0.6	0.1
Unit value	16.2	14.1	27.3	32.1	32.9	25.6	33.3
Bunker for ships							
Value	100.7	65.9	70.0	116.5	116.7	68.4	64.3
Volume	8.3	4.9	3.0	4.1	3.6	2.3	n.a.
Unit value	12.1	13.4	23.3	28.4	32.4	29.7	n.a.
Fuel for aircraft							
Value	13.5	15.5	27.6	35.0	34.0	28.0	31.1
Volume	0.9	1.0	1.0	1.0 a/	0.9 a/	0.8 a/	n.a.
Unit value	15.0	15.2	27.6	35.0 a/	37.8 a/	35.0 a/	n.a.

a/ Estimated.

Sources: Ministry of Commerce and Industry, Comptroller General and IMF.

TABLE 3.5: EXPORTS OF PRINCIPAL MERCHANDISE, 1970-82
(Millions of Balboas)

Product	1970	1975	1977	1978	1979	1980	1981	1982 a/
Meat	2.2	1.6	1.5	0.5	1.5	3.1	5.1	9.4
Condensed and evaporated milk	...	0.3	1.4	2.3	3.3	6.5	5.9	2.2
Fresh and refrig. shrimp	10.2	19.0	30.0	30.3	45.0	43.7	42.7	52.9
Canned sardines	...	0.6	1.3	1.5	1.4	1.3	1.3	1.0
Bananas	60.8	60.0	66.5	71.9	65.7	61.6	69.2	66.0
Banana puree	...	1.2	2.2	1.8	2.5	2.2	3.7	2.0
Fruit extract	0.1	0.7	1.6	1.9	2.1	1.3	1.1	1.1
Sugar	4.4	49.4	21.9	20.3	26.1	65.8	51.0	23.7
Syrup and molasses	0.1	1.4	1.7	2.3	4.0	3.9	1.6	0.8
Coffee	1.7	2.3	5.5	8.9	9.6	10.2	13.5	12.1
Cocoa	...	0.8	2.1	3.1	4.0	2.1	0.1	...
Fish flour	0.8	1.7	10.5	4.2	7.9	10.1	4.3	1.6
Mayonnaise and mustard	...	0.4	0.8	1.1	1.5	2.1	0.7	0.5
Rum	...	0.3	1.1	1.4	2.3	3.8	3.0	2.0
Tobacco	...	0.8	1.0	1.2	1.7	1.4	1.9	2.3
Oil derivatives	21.5	128.3	68.3	60.1	72.4	81.8	58.4	70.1
Fish oil	0.1	1.2	4.5	1.5	1.4	4.7	1.3	0.3
Leather	...	0.5	3.5	2.2	5.2	2.0	2.4	5.1
Cardboard boxes	...	0.4	1.0	1.6	1.7	2.8	1.2	1.5
Clothing	0.2	3.2	6.1	8.6	8.6	10.4	14.0	17.3
Others	4.2	6.9	12.3	20.1	27.0	32.6	34.4	37.2
TOTAL	106.3	280.2	244.6	246.8	294.7	353.4	316.9	309.1

a/ Preliminary.

Source: Comptroller General.

Table 3.6: TRAVELLERS TO PANAMA, 1970-83
(Thousands)

Year	Total	Tourist and Business	Transit a/	Other b/
1970	498.3	116.2	367.5	14.6
1971	507.6	143.9	354.8	8.9
1972	526.0	146.6	358.5	20.8
1973	558.4	165.4	354.4	38.6
1974	579.2	200.1	341.3	38.1
1975	598.1	202.7	350.3	45.2
1976	641.1	223.6	368.1	49.5
1977	697.0	320.1	374.0	2.9
1978	725.3	376.2	349.1	0.0 c/
1979	795.3	371.0	424.3	0.0
1980	734.8	377.6	357.2	0.0
1981	699.0	346.7	352.3	0.0
1982	634.0	336.3	297.7	0.0
1983	594.0	300.8	293.2	0.0

a/ Includes travellers only changing planes and those who remained in Panama up to 48 hours.

b/ Includes Panamanians living abroad returning for temporary stay, travellers arriving for medical attention, and others.

c/ After 1977 "Other" is included in "Tourist and Business".

Source: Comptroller General.

Table 3.7: TRAVEL RECEIPTS AND EXPENDITURES, 1979-83

(US$ Millions)

	1979	1980	1981	1982	1983 a/
Net travel receipts	114.5	112.4	105.7	93.2	100.0
Expenditure of visitors	127.0	133.5	132.5	133.1	126.3
Tourists	101.1	103.7	100.4	97.0	92.9
Business, official, and education-related travel	25.9	29.8	32.1	36.1	33.4
Travelers in transit	35.9	34.9	38.3	40.7	38.3
Expenditure of Panamanians traveling abroad	-48.4	-56.0	-65.1	-80.6	-71.4

a/ Estimates

Source: Comptroller General.

Table 3.8: OPERATIONS OF THE COLON FREE ZONE, 1979-83

(US$ Millions and number of employees)

	1979	1980	1981	1982	Jan-Sept 1982	Jan-Sept 1983 a/
Total net receipts from Colon Free Zone	179.8	218.9	258.1	220.9	165.7	123.6
Wages and salaries	33.3	44.6	59.0	n.a.	n.a.	n.a.
Depreciation	2.9	4.2	4.6	n.a.	n.a.	n.a.
Profits	85.9	128.6	97.7	n.a.	n.a.	n.a.
Indirect taxes	2.5	1.3	0.8	n.a.	n.a.	n.a.
Other services	55.2	40.2	96.0	n.a.	n.a.	n.a.
Imports (f.o.b.) by Free Zone	1,325.0	1,781.2	1,992.0	1,703.6	1,289.1	847.5
Food products	24.4	20.3	9.9	15.1	10.3	15.0
Beverages and tobacco	50.7	61.9	58.2	86.9	63.0	49.1
Chemical products	154.4	201.2	197.3	186.3	141.8	139.4
Manufactures	721.0	947.0	1,199.3	1,076.9	810.0	499.3
Machinery and transport goods	327.2	498.1	521.8	335.0	261.2	142.9
Other	47.3	52.6	5.5	3.4	2.8	1.8
Exports (f.o.b.) by Free Zone	1,529.1	2,055.8	2,328.1	2,149.3	1,596.5	1,074.4
Food products	46.5	39.4	16.6	19.9	11.0	23.1
Beverage and tobacco	56.7	70.1	68.7	101.7	67.7	52.5
Chemical products	221.3	270.0	291.8	268.2	204.1	210.7
Manufactures	818.5	1,103.2	1,366.7	1,325.7	978.2	576.2
Machinery and transport goods	379.2	562.9	583.7	430.5	332.9	209.6
Other	6.9	10.2	0.5	3.3	2.6	2.3
Residual b/	24.3	55.8	77.9	445.7	141.7	103.2
	Number of Employees					
Panamanians employed in Colon Free Zone	5,263	6,254	6,918	6,974	7,018	6,147

a/ Estimated.
b/ Changes in inventories and nonresident value added.

Sources: Comptroller General and IMF.

Table 3.9: NONTRADITIONAL EXPORTS AND ISSUE OF TAX CREDIT CERTIFICATES (CATs), 1977-83

(US$ Millions)

	1977	1978	1979	1980	1981	1982	1983 a/
Nontraditional exports, f.o.b.	10.3	12.3	16.3	20.7	24.1	53.5	33.9
Food	0.3	1.3	1.5	4.2	5.9	21.5	13.9
Beverages and tobacco	1.0	1.2	1.5	1.5	2.2	2.3	2.7
Raw materials	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Chemicals	0.0	0.2	0.2	0.3	0.2	0.3	0.5
Manufactures	4.9	2.7	4.9	5.1	6.4	11.8	6.6
Machinery and transportation equipment	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Miscellaneous manufactures	4.1	6.9	8.1	9.6	9.3	17.6	10.2
Issue of tax credit certificates	1.4	1.4	2.1	2.8	3.1	7.3	6.4
Food	0.1	0.2	0.2	0.7	0.8	2.9	2.9
Beverages and tobacco	0.2	0.2	0.3	0.3	0.4	0.5	0.5
Raw materials	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Chemicals	0.0	0.0	0.1	0.1	0.1	0.1	0.0
Manufactures	0.7	0.3	0.7	0.7	0.9	2.2	1.7
Machinery and transportation equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous manufactures	0.4	0.7	0.8	1.0	0.9	1.6	1.3
Ratio of tax credit certificates to exports (in percent)	13.6	11.4	12.9	13.5	12.9	13.6	18.9

a/ Estimated.

Source: Ministry of Industry and Commerce.

IV.

DEBT

Table 4.1: TOTAL PUBLIC DEBT OUTSTANDING, 1979-83

(US$ Millions)

Debt	1979	1980	1981	1982	1983 a/
Non-Financial Public Sector	2,064.0	2,300.8	2,360.3	2,790.3	2,933.5
Medium and Long Term	2,037.6	2,229.6	2,315.2	2,726.3	2,898.5
Short Term b/	26.4	71.2	45.1	64.0	35.0
Financial Institutions	n.a.	217.5	320.4	376.2	479.8
Liabilities to IMF	41.4	23.0	93.6	83.9	200.7
Liabilities to Venezuela and Mexico c/	37.3	43.3	104.7	177.0	221.5
Other Medium and Long Term	25.0	33.6	43.9	54.4	57.6
Short Term d/	n.a.	117.6	78.2	60.9	60.0
TOTAL OUTSTANDING	n.a.	2,518.3	2,680.7	3,166.5	3,413.3

a/ Preliminary.
b/ Maturities of less than 12 months.
c/ Under the San Jose Oil Agreement.
d/ Excluding demand deposits but including interbank lines.

Sources: Comptroller General, National Bank, IMF and World Bank External Debt Division.

Table 4.2: MEDIUM AND LONG-TERM EXTERNAL PUBLIC DEBT OUTSTANDING BY DEBTOR, 1975-83

(US$ Millions)

Debtor	1975	1976	1977	1978	1979	1980	1981	1982	1983
Central Government	452.6	568.1	677.8	1,154.0	1,458.7	1,671.6	1,753.4	2,072.9	2,174.2
INTEL a/	23.3	24.2	22.0	23.9	39.6	45.5	46.2	45.2	41.0
IRHE b/	89.1	132.7	179.2	203.8	186.7	187.7	212.7	303.9	362.8
Agricultural Development Bank	f/	f/	8.8	16.3	20.0	29.3	28.3	52.2	64.1
National Mortgage Bank	24.7	64.7	98.0	94.6	82.0	77.6	75.1	61.2	62.6
IDAAN c/	45.4	49.1	48.2	48.1	47.8	49.1	51.8	53.9	53.2
La Victoria Sugar Corporation	64.2	132.2	166.0	177.8	68.8	41.5	24.5	13.6	5.2
Bayano Cement Company	4.0	22.7	40.8	59.4	50.4	36.2	30.5	26.6	21.8
COFINA d/	f/	f/	0.9	1.2	10.7	17.3	15.4	13.9	23.0
Others	55.9	84.1	73.0	72.5	13.1	73.8	77.3	82.9	90.6
Sub-Total, Non-Financial Public Sector	759.2	1,077.8	1,314.7	1,851.6	2,037.8	2,229.6	2,315.2	2,726.3	2,898.5
Financial Institutions e/	15.0 g/	25.0 g/	14.0 g/	19.7 g/	25.0 g/	33.6 g/	43.9 g/	55.4 g/	57.6 g/
TOTAL	774.2	1,102.8	1,328.7	1,871.3	2,062.8	2,263.2	2,359.1	2,781.7	2,956.1

a/ National Telecommunications Company.
b/ National Electricity Company.
c/ Water and Sewage Company.
d/ National Finance Corporation.
e/ National Bank of Panama and Savings Bank.
f/ Included in "Others".
g/ Excludes National Bank liabilities to the IMF, FIVEN and PEMEX.

Sources: Comptroller General, National Bank, IMF and World Bank External Debt Division.

Table 4.3: MEDIUM AND LONG-TERM EXTERNAL PUBLIC DEBT OUTSTANDING BY CREDITOR, 1974-83 a/
(US$ Millions)

CREDITOR	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Multilateral Agencies	99.8	135.1	168.3	192.2	230.0	269.1	329.0	360.4	442.2	587.4
Bilateral Concessional a/	96.0	127.2	168.4	184.3	227.3	237.6	242.3	255.7	287.2	323.8
Sub-Total Concessional	195.8	262.3	336.7	376.5	457.3	506.7	571.3	616.1	729.4	911.2
Bonds	26.4	25.6	38.6	62.3	316.2	360.4	351.1	344.6	298.8	278.8
Commercial Banks	285.0	440.5	684.6	858.9	1,059.0	1,155.8	1,305.2	1,369.2	1,723.7	1,819.3
Suppliers' Credits	31.4	45.8	43.0	31.0	38.8	39.9	35.6	29.2	28.8	33.5
Sub-Total Commercial	342.8	511.9	766.2	952.2	1,414.0	1556.1	1,691.9	1,743.0	2,052.3	2,131.6
TOTAL	538.6	774.2	1,102.9	1,328.7	1,871.3	2,062.8	2,263.2	2,359.1	2,781.7	3,042.8

a/ Excluding IMF, FIVEN and PEMEX credits to the National Bank of Panama.

Sources: Comptroller General, National Bank, IMF, and World Bank External Debt Division.

Table 4.4: Service Payments, Commitments, Disbursements and External Public Debt Outstanding, 1974-98 (US$ Thousands)

YEAR	DEBT OUTSTANDING AT BEGINNING OF PERIOD		TRANSACTIONS DURING PERIOD					OTHER CHANGES	
	DISBURSED ONLY	INCLUDING UNDISBURSED	COMMITMENTS	DISBURSEMENTS	SERVICE PAYMENTS			CANCELLATIONS	ADJUSTMENT a/
					PRINCIPAL	INTEREST	TOTAL		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1974	457,468	697,795	150,847	194,936	91,438	44,119	135,557	1,339	3,849
1975	564,836	759,714	380,736	222,227	31,186	41,184	72,370	8,573	23,373
1976	770,745	1,124,064	341,712	352,586	44,666	55,865	100,531	1,838	16,141
1977	1,092,968	1,435,413	476,063	316,597	88,223	73,219	161,442	5,718	15,308
1978	1,333,476	1,832,843	951,495	962,173	443,267	121,965	565,232	1,330	28,423
1979	1,880,463	2,368,164	395,955	396,668	190,142	196,362	386,504	3,511	-860
1980	2,078,421	2,569,606	518,727	390,785	213,795	251,526	465,321	37,724	11,846
1981	2,265,941	2,848,660	533,539	333,715	213,925	279,423	493,348	18,906	-5,903
1982	2,379,032	3,143,465	559,250	731,716	282,289	331,607	613,896	5,703	-11,816
1983	2,821,885	3,402,907	689,030	358,219	188,145	282,251	470,396	40,565	-12,764
1984	2,983,483	3,850,463							
			THE FOLLOWING FIGURES ARE PROJECTED b/						
1984	2,983,483	3,850,463	-	373,743	252,366	299,060	551,426	-	-209
1985	3,104,651	3,597,888	-	165,924	347,175	294,706	641,881	-	4
1986	2,923,403	3,250,717	-	130,747	499,334	266,675	766,009	-	4
1987	2,554,819	2,751,387	-	84,315	564,083	218,193	782,276	-	2
1988	2,075,051	2,187,306	-	50,736	529,560	162,740	692,300	-	-2
1989	1,596,223	1,657,744	-	28,161	401,297	111,931	513,228	-	9
1990	1,223,096	1,256,456	-	17,217	213,401	80,098	293,499	-	-8
1991	1,026,904	1,043,047	-	11,825	135,636	64,955	200,591	-	5
1992	903,098	907,416	-	4,318	117,090	55,723	172,813	-	5
1993	790,331	790,331	-	-	133,271	46,763	180,034	-	3
1994	657,063	657,063	-	-	109,111	37,314	146,425	-	-2
1995	547,950	547,950	-	-	85,757	30,061	115,818	-	7
1996	462,200	462,200	-	-	78,889	24,029	102,918	-	-
1997	383,311	383,311	-	-	71,177	18,541	89,718	-	1
1998	312,135	312,135	-	-	54,796	13,797	68,593	-	-1

a/ THIS COLUMN SHOWS THE AMOUNT OF ARITHMETIC IMBALANCE IN THE AMOUNT OUTSTANDING INCLUDING UNDISBURSED FROM ONE YEAR TO THE NEXT. THE MOST COMMON CAUSES OF IMBALANCES ARE CHANGES IN EXCHANGE RATES AND TRANSFER OF DEBTS FROM ONE CATEGORY TO ANOTHER IN THE TABLE.

b/ Projections based on debt outstanding including undisbursed as of December 31, 1984.

Table 4.5: Terms and Structure of External Public Debt, 1970-83
(US$ Thousands)

PERIOD ENDING	AMOUNT	AVERAGE TERMS INTEREST (%)	MATURITY (YRS)	GRACE (YRS)	GRANT ELEMENT(%)	GRANT EQUIVALENT
7012	111,238	6.862	15.1	4.0	17.1	19,037
7112	137,808	6.858	15.2	3.4	19.0	26,123
7212	105,873	7.445	11.0	3.6	13.6	14,374
7312	282,049	8.445	13.6	4.5	9.9	27,850
7412	150,847	9.232	17.0	4.5	10.7	16,206
7512	380,736	8.092	13.5	4.3	12.3	46,967
7612	341,712	8.203	9.1	3.0	7.9	26,932
7712	476,063	8.178	12.7	3.9	8.6	40,952
7812	951,495	9.168	10.9	4.1	4.6	43,691
7912	395,955	9.692	13.7	5.3	3.2	12,844
8012	518,727	11.408	13.4	4.5	-2.9	-15,022
8112	533,539	14.403	11.6	4.4	-18.6	-99,484
8212	559,250	13.017	11.0	4.2	-11.5	-64,105
8312	689,030	11.338	10.2	3.2	-5.6	-38,299
TOTAL EXTERNAL PUBLIC DEBT	5,634,322	10.170	12.0	4.1	1.0	58,068

V.

PUBLIC FINANCE

Table 5.1: CENTRAL GOVERNMENT OPERATIONS, 1971-83

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
(Millions of Balboas)													
CURRENT REVENUE	181.1	197.9	225.0	268.0	297.1	295.0	369.0	405.4	477.0	707.8	791.1	865.3	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	256.5	270.9	302.6 a/
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
Nontax revenue	36.1	40.4	49.6	53.7	66.1	61.5	65.7	66.6	71.9	170.0 b/	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
TOTAL EXPENDITURES	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
CURRENT EXPENDITURES	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
Pensions and transfers	30.2	36.4	36.2	37.5	43.3	n.a.	74.8	107.7	130.6	142.0	175.5	171.0	161.5
Of 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.[illegible]	21.8	21.7	4.4	15.3	12.3
CURRENT ACCOUNT SURPLUS OR DEFICIT (-)	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
Grants-in-aid	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
CAPITAL EXPENDITURE	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	98.5	84.3	42.7	20.7	17.7
Of which 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	15.0
OVERALL SURPLUS OR DEFICIT (-)	-35.7	-52.3	-66.6	-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 c/	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
Nontax 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.	15.9	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
Nontax 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 discounting of income tax promissory notes issued by oil pipeline company.
b/ Includes B/. 12.5 million in payments deferred from 1980.
c/ Includes bonds placed locally.

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

Table 5.2: CENTRAL GOVERNMENT REVENUE, 1971-83
(Millions of Balboas)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
TOTAL REVENUE	181.1	197.9	225.0	268.0	297.1	295.0	369.0	405.4	477.0	707.8	790.5	865.3	906.2
TAX REVENUE	145.0	157.5	175.4	214.3	231.0	233.5	303.3	338.8	405.1	537.8	611.1	645.2	683.9
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 b/
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
NONTAX REVENUE	36.1	40.4	49.6	53.7	66.1	61.5	65.7	66.6	71.9	170.0	179.4	220.1	222.3
Panama Canal annuity	1.9	1.9	2.1	2.3	2.3	2.3	2.3	2.3	2.3	83.8 a/	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: Ministry of Planning and Economic Policy, Comptroller General and IMF.

Table 5.3: CONSOLIDATED OPERATIONS OF THE DECENTRALIZED AGENCIES, 1977-83 a/
(Millions of Balboas)

	1977	1978	1979	1980	1981	1982	1983
OPERATING REVENUE	17.8	34.7	43.2	54.5	64.1	67.1	111.8 b/
OPERATING EXPENDITURES	43.7	58.8	76.1	83.9	92.7	112.8	115.7
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
OPERATING SURPLUS OR DEFICIT (-)	-25.9	-24.1	-32.9	-29.4	-28.6	-45.7	-3.9
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
CURRENT ACCOUNT SURPLUS OR DEFICIT (-)	-4.9	2.7	-5.8	-3.1	-0.9	-4.2	28.1
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
CAPITAL EXPENDITURE	62.1	67.0	44.2	60.6	65.6	99.9	57.2
Fixed investment c/	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
OVERALL SURPLUS OR DEFICIT (-)	-45.0	-42.2	-26.6	-25.5	-16.0	-40.7	0.5
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.

a/ Includes the operations of the University of Panama, Human Development Institute (IFARHU), Agricultural and Marketing Institute (IMA), National Finance Corporation (COFINA), and National Morgage Bank (BHN), and Agricultural Development Bank (BDA).
b/ Includes B/. 34.0 million in proceeds of sale of hotel by COFINA.
c/ Includes investment expenditures of the Housing Ministry.

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

Table 5.4: CONSOLIDATED OPERATIONS OF THE STATE ENTERPRISES, 1975-83 a/
(Millions of Balboas)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
OPERATING REVENUE	129.4	n.a.	159.1	183.7	234.9	361.9	427.1	436.0	501.1
OPERATING EXPENDITURES	97.1	n.a.	151.3	186.7	238.9	318.4	364.7	394.8	430.7
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
OPERATING SURPLUS OR DEFICIT (-)	32.8	n.a.	7.8	-3.0	-4.0	43.5	62.4	41.2	70.4
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
CURRENT ACCOUNT SURPLUS OR DEFICIT (-)	n.a.	n.a.	7.6	0.6	3.5	53.8	66.5	27.3	59.1
Capital transfers	23.5	n.a.	35.4	56.8	98.5	84.3	42.7	20.7	17.7
CAPITAL EXPENDITURE	136.8	n.a.	175.1	187.6	142.6	116.1	117.1	179.4	126.0
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
OVERALL SURPLUS OR DEFICIT (-)	-80.5	n.a.	-132.1	-130.2	-40.6	22.0	-7.9	-131.4	-49.2
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.

Table 5.5: OPERATIONS OF THE SOCIAL SECURITY AGENCY, 1971-83
(Millions of Balboas)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
CURRENT REVENUE	58.1	72.2	83.6	94.3	133.2	165.4	138.9	151.7	181.9	219.1	266.7	318.7	333.1
Contributions	48.6	62.3	73.1	83.4	115.4	144.6	104.9	114.0	139.0	165.8	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
Thirteenth 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
CURRENT EXPENDITURES	53.3	61.6	68.9	77.0	99.0	115.8	133.6	155.6	170.3	197.0	235.7	266.5	314.7
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
CURRENT OPERATING SURPLUS OR DEFICIT (-)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.3	-3.9	11.6	22.1	31.0	52.2	18.4
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	17.5	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
CURRENT ACCOUNT SURPLUS OR DEFICIT (-)	7.9	14.1	18.9	22.0	39.5	56.9	15.2	11.5	31.6	38.7	66.1	87.8	59.3
CAPITAL EXPENDITURES	3.8	5.0	4.5	5.2	3.9	7.8	17.6	18.6	9.0	23.7	63.2	95.4	47.5
Fixed investment	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.6	4.7	6.0	4.5	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
OVERALL SURPLUS OR DEFICIT (-)	2.2	7.5	11.4	14.3	33.1	46.6	-2.4	-7.1	22.6	15.0	2.9	-7.6	11.8
External financing (net)	0.0	10.0	-0.7	-1.4	-1.4	n.a.	n.a.	n.a.	-2.5	-1.3	21.8 a/	0.0	0.0
National bank financing (net)	-2.2	19.8	-0.9	16.4	21.4	m.a.	n.a.	n.a.	-20.1	-16.0	-24.7	7.6	-11.8
Other	0.0	-37.3	-9.8	-29.3	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.

Table 5.6: OPERATIONS OF THE NONFINANCIAL PUBLIC SECTOR, 1977-83

	1977	1978	1979	1980	1981	1982	1983
	(Millions of Balboas)						
REVENUE OF CONSOLIDATED PUBLIC SECTOR	537.1	595.0	708.2	1,032.6	1,177.3	1,274.1	1,405.8
General government revenue	521.8	589.7	699.6	977.0	1,110.2	1,246.8	1,346.7
Central Government [a]	365.1	403.3	474.5	703.4	779.4	861.0	n.a.
Social Security Agency	138.9	151.7	181.9	219.1	266.7	318.7	n.a.
Rest of general government	17.8	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	59.1
Of which: interest payments	34.6	50.9	61.2	68.8	67.0	n.a.	n.a.
EXPENDITURE OF CONSOLIDATED PUBLIC SECTOR	807.7	960.7	1,054.2	1,229.3	1,391.8	1,736.1	1,670.5
General government current expenditure	495.5	620.6	750.6	915.3	1,021.9	1,217.7	1,262.6
Central Government [a]	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	518.4	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.
CONSOLIDATED PUBLIC SECTOR SAVINGS [b]	41.6	-25.5	-42.4	117.3	155.4	56.4	143.2
OVERALL DEFICIT OF CONSOLIDATED PUBLIC SECTOR	-270.6	-365.7	-346.0	-196.7	-214.5	462.0	264.7
Overall surplus or deficit (-) of nonconsolidated public sector	13.1	-11.5	15.4	12.6	6.6	- 2.0	17.6
OVERALL DEFICIT OF PUBLIC SECTOR	-257.5	-377.2	-330.6	-184.1[d]	-207.9	-464.0	-247.3
External financing	281.9	479.5	196.1	227.6	208.7[d]	495.6[d]	298.4[d]
National Bank	-32.5	-100.7	139.9	-40.5	- 0.8[e]	-31.6[e]	- 51.1[e]
Other [c]	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

a/ Excludes transfers to and from the rest of the general government.
b/ Includes grants-in-aid
c/ Includes bonds placed locally.
d/ Includes net disbursements of the IMF, FIVEN and PEMEX intermediated through the National Bank, net.
e/ Net.

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

Table 5.7: 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 a/ (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
										1971-83		
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		1971-75		
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	12.3	24.2	15.7	12.4
1975	231.0	66.1	297.1	115.3	346.3	1,840.8	12.5	18.8				
1976	233.5	61.5	295.0	120.4	353.9	1,956.3	11.9	18.1		1976-79		
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	20.2	12.6	17.7	12.7
1979	405.1	71.9	477.0	171.8	576.9	2,800.2	14.5	20.6				
1980	537.8	170.0	707.8	206.2	745.0	3,558.8	15.1	20.9		1980-83		
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	8.3	14.1	9.9	7.1
1983	683.9	222.3	906.2	306.2	990.1	4,369.6	15.7	22.7				

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

Sources: Comptroller General and IMF.

VI.

BANKING

Table 6.1: BANKING INSTITUTIONS: NUMBER REGISTERED IN PANAMA BY CATEGORY, 1976-83

Year	General a/ License	Internacional License	Representative Offices	Total
1976	47	18	6	71
1977	47	20	9	76
1978	50	24	10	84
1979	52	28	10	90
1980	59	33	12	104
1981	66	40	10	116
1982	71	43	13	127
1983 b/	71 c/	44	13	128

a/ Including Banco Nacional de Panama and Caja de Ahorros.
b/ As of June 30, 1983.
c/ Including a Venezuelan bank which ceased operations in mid 1983 but remains registered.

Sources: National Banking Commission and World Bank estimates.

Table 6.2: BANKING SECTOR EMPLOYMENT AND WAGES, 1976-83

	1976	1977	1978	1979	1980	1981	1982	1983 a/
Total Number of Employees	5,759	5,912	6,180	6,573	7,178	7,919	9,826	9,007
Nationals	5,612	5,754	6,011	6,373	6,976	7,665	8,477	8,742
Foreigners	147	158	169	200	202	254	249	265
Average Salary b/ (US$ per month)	444	484	523	569	601	636	694	740
Official Banks:								
Number of Employees	1,909	2,032	2,151	2,300	2,523	2,778	3,120	3,276
Average Salary b/ (US$ per month)	324	352	371	398	399	404	445	475
General Licensed Banks:								
Number of Employees	3,692	3,672	3,740	3,895	4,203	4,615	5,018	5,106
Average Salary b/ (US$ per month)	501	549	599	646	693	739	805	872
International Licensed Banks:								
Number of Employees	158	200	267	358	425	504	569	610
Average Salary b/ (US$ per month)	565	631	660	818	880	945	1,072	1,078
Representation Licensed Banks:								
Number of Employees	n.a.	n.a.	8	22	20	22	19	16
Average Salary b/ (US$ per month)	n.a.	n.a.	802	716	725	746	789	795
Number of employees per Institution								
Official Banks	955	1,016	1,076	1,150	1,262	1,389	1,560	1,638
General Licensed Banks	82	82	78	78	74	78	78	74
International Licensed Banks	9	10	11	13	13	12	13	14
Representation Licensed Banks	n.a.	n.a.	1	2	2	2	2	1
Total	81	78	74	73	69	71	72	70

a/ Until June 30.
b/ Excluding Social Charges.

Source: National Banking Commission.

Table 6.3: LOAN PORTFOLIO BY AREA OF BANKS REGISTERED IN PANAMA, 1976-82
(US$ Millions)

AREA	1976	%	1980	%	1981	%	1982	%
Total International Loans	6,050.8	100.0	20,425.9	100.0	27,433.2	100.0	29,288.2	100.0
North America	1,440.2	23.8	5,477.5	26.8	8,280.4	30.2	7,332.3	25.0
South America	2,974.2	49.2	10,151.1	49.7	14,411.9	52.5	16,707.4	57.0
Central America	719.1	11.9	2,098.2	10.3	1,906.3	7.0	2,229.9	7.6
Caribbean Area	83.2	1.4	299.1	1.5	339.4	1.2	328.3	1.1
Europe	565.1	9.2	1,884.9	9.2	2,128.3	7.8	2,186.6	7.6
Other Areas	269.0	4.5	515.1	2.5	367.0	1.3	503.7	1.7

Source: National Banking Commission.

Table 6.4: CONSOLIDATED BALANCE SHEETS OF THE BANKING SECTOR, 1976-83
(US$ Millions)

	1976	1977	1978	1979	1980	1981	1982	1983 a/
Total Assets	12,703.8	16,583.7	22,166.0	35,414.1	38,439.6	46,359.9	49,002.6	45,545.7
Liquid assets	4,589.7	5,862.8	7,820.5	15,013.7	12.444.0	11,840.6	12,401.3	12,279.5
Loans	7,679.1	9,958.1	13,504.9	18,939.9	22,956.5	30,579.2	32,639.1	29,634.8
Local	(1,628.3)	(1,765.5)	(1,843.3)	(2,133.2)	(2,530.6)	(3,146.0)	(3,350.9)	(3,502.5)
Foreign	(6,050.8)	(8,192.6)	(11,661.6)	(16,806.7)	(20,425.9)	(27,433.2)	(29,288.2)	(26,132.3)
Securities	140.9	244.2	206.1	345.0	1,625.7	1,708.3	1,731.6	1,680.6
Other Assets b/	294.1	518.6	634.5	1,115.5	1,413.4	2,231.8	2,230.6	1,950.8
Liabilities and Capital	12,703.8	16,583.7	22,166.0	35,414.1	38,439.6	46,359.9	49,002.6	45,545.7
Deposits	11,345.2	15,212.2	20,708.2	32,179.6	33,899.2	39,683.1	40,331.8	37,370.6
Local	(994.8)	(1,199.4)	(1,553.0)	(1,802.4)	(2,406.0)	(3,201.5)	(3,526.8)	(3,224.4)
-Demand	(265.0)	(354.3)	(496.5)	(456.3)	(513.9)	(644.1)	(705.7)	(615.0)
-Fixed Term	(729.8)	(845.1)	(1,056.5)	(1,346.1)	(1,892.1)	(2,557.4)	(2,821.1)	(2,609.4)
Foreign	(10,350.4)	(14,012.8)	(19,155.2)	(30,377.2)	(31,493.2)	(36,481.6)	(36,805.0)	(34,146.2)
-Demand	(406.0)	(412.9)	(445.8)	(842.6)	(820.8)	(952.2)	(888.5)	(1,097.7)
-Fixed Term	(9,944.4)	(13,599.9)	(18,709.4)	(29,534.6)	(30,672.4)	(35,529.4)	(35,916.5)	(33,048.5)
Guarantees	768.5	390.3	404.2	1,524.8	2,147.8	2,918.4	4,076.1	3,890.0
Other Liabilities c/	286.3	565.5	567.1	1,078.2	1,469.5	2,626.0	3,052.1	2,698.4
Capital and Reserves	303.8	415.7	486.5	631.5	923.1	1,132.4	1,542.6	1,595.7

a/ Preliminary.
b/ Principally real state and branch offices.
c/ Principally transactions with head office and guaranteed and certified checks.

Source: National Banking Commission.

Table 6.5: OFFSHORE BANKING CENTERS IN THE EURODOLLAR MARKET: GROWTH IN TOTAL ASSETS, 1976-83
(US$ Billions)

Year	Eurocurrency Market	Hong Kong	Singapore	Bahrain	Bahamas	Cayman island a/	Panama
1976	n.a.	9.2	15.0	6.0	78.7	12.0	11.1
1977	740.0	13.1	18.3	14.1	89.8	16.3	14.7
1978	949.0	16.4	23.5	20.9	105.5	18.3	19.8
1979	1,333.0	21.1	31.2	23.7	112.5	26.6	32.5
1980	1,524.0	32.6	43.5	31.0	125.5	33.0	34.6
1981	1,861.0	45.3	69.6	41.4	150.4	42.1	41.3
1982	2,057.0	54.1	82.8	48.6	132.4	46.7	42.9
1983 b/	2,133.0	63.1	86.5	50.1	131.2	46.3	40.8
Growth Rates (in percent per annum)							
1976-83	19.3	31.7	28.4	35.4	7.6	21.3	20.4
1976-80	27.2	37.2	30.5	50.8	12.4	28.8	32.9
1980-83	11.9	24.6	25.8	17.4	1.5	12.0	5.7

a/ US banks only.
b/ Gross foreign currency liabilities.
c/ As of September 30.

Sources: IMF, Morgan Guaranty Trust Company and World Bank estimates.

Table 6.6: THE EIGHT LEADING GENERAL LICENSE BANKS: LOCAL LOANS AND DEPOSITS, 1979-82 (US$ Millions)

	1979	1980	1981	1982
Deposits				
Bank of America	152.1	124.2	121.4	123.1
Citibank	93.6	118.2	142.8	172.5
Banco Nacional de Panama	414.5	518.5	686.6	608.9
Banco de Colombia	108.1	134.1	157.6	175.8
Chase Manhattan	189.6	218.9	284.9	289.3
Banco Fiduciario	78.3	86.2	92.1	89.3
Banco Santander	a/	101.8	115.9	118.4
Caja de Ahorros	199.2	143.1	159.1	190.9
Total	1,235.4	1,445.0	1,760.4	1,768.2
Percentage of Total Local Deposits	68.5	60.1	55.0	50.1
Loans b/				
Bank of America	167.0	215.5	247.7	259.1
Citibank	187.1	213.0	243.1	236.4
Banco Nacional de Panama	379.7	408.0	648.2	741.8
Banco de Colombia	84.0	93.5	101.2	113.3
Chase Manhattan	286.8	343.7	350.2	349.8
Banco Fiduciario	105.8	102.3	107.3	122.9
Banco Santander	a/	120.1	122.7	99.5
Caja de Ahorros	122.3	137.9	149.2	158.2
Total	1,332.7	1,634.0	1,969.6	2,081.0
Percentage of Total Local Loans	62.5	64.6	62.6	62.1

a/ Not registered
b/ Gross

Sources: Bank's published balance sheets.

Table 6.7: NET DOMESTIC CREDIT OF THE GENERAL LICENSED BANKS: CHANGES BY DESTINATION AND FINANCING, 1979-83
(US$ Millions)

	1979	1980	1981	1982	1983 a/
Total net domestic assets	392.5	397.4	615.4	204.9	151.6
Origin					
National Bank of Panama Credit	158.9	28.3	240.2	93.6	n.a.
Savings Bank Credit	13.3	15.6	11.3	9.0	n.a.
Private Banks Credit	203.7	348.9	355.6	67.8	n.a.
Other (net) b/	16.6	4.6	8.3	34.5	n.a.
Destination					
Public Sector	90.4	39.9	180.9	127.8	138.6
Private Sector	302.1	357.5	434.5	77.1	13.0
Financing					
Domestic Deposits	217.5	312.0	264.3	208.6	-54.5
Foreign Financing	175.0	85.4	351.1	-3.7	206.1
Net Foreign Indebtedness c/	(76.4)	(-133.8)	(258.1)	(-287.3)	(189.5)
Private Capital and Surplus	(98.6)	(219.2)	(93.0)	(283.6)	(16.6)

a/ Preliminary; up to September 30.
b/ Including variations in interbank overnight deposits.
c/ Includes SDR deposits.

Sources: National Banking Commission, National Bank of Panama and World Bank.

Table 6.8: OUTSTANDING DOMESTIC CREDITS BY SECTOR OF THE BANKING SYSTEM, 1976-83
(US$ Millions)

	1976	1977	1978	1979	1980	1981	1982	1983
Total	1,628.3	1,765.5	1,843.3	2,133.2	2,530.6	3,146.0	3,350.9	3,502.5
Public Sector entities	340.2	401.3	365.1	351.2	391.1	572.0	699.8	838.4
Finance and Insurance companies	41.6	42.3	48.4	75.2	68.1	77.3	70.3	63.5
Agriculture	35.1	49.6	50.0	55.8	66.1	89.4	104.8	97.1
Livestock	70.8	72.5	75.8	83.2	89.1	104.9	104.4	106.0
Fishing	5.3	5.9	6.8	6.0	7.0	11.4	7.7	12.6
Mining	1.7	1.9	1.3	1.1	1.0	0.0	0.0	0.4
Commerce	551.4	570.5	612.1	752.3	952.9	1,196.6	1,224.5	1,146.2
Industry	133.3	136.8	184.7	214.0	265.2	283.3	263.1	264.3
Housing	292.3	335.8	352.6	420.9	465.9	512.5	552.0	616.8
Other construction	78.4	72.9	64.3	66.5	97.0	147.4	150.5	164.2
Personal	78.2	76.1	82.2	106.8	126.9	150.7	172.4	179.9
Non profit organizations	0.0	0.7	0.6	0.6	0.4	0.5	1.4	0.5

Source: National Banking Commission.

Table 6.9: INTEREST RATES: EVOLUTION AND STRUCTURE, 1979-84
(Annual Averages)

	1979	1980	1981	1982	1983	1984 a/
Rates paid on:						
Demand deposits	0.0	0.0	0.0	0.0	0.0	0.0
Savings deposits of less than $14,000						
-By Commercial Banks b/	4.5	4.5	4.5	4.5	4.5	4.5
-By Caja de Ahorros c/	5.5	5.5	5.5	5.5	5.5	5.5
-By Savings and Loan Associations	5.5	5.5	5.5-7.5	5.5-7.5	5.5-7.5	5.5-7.5
Fixed Term Deposits by Commercial Banks	12.2	14.0	17.0	13.2	n.a.	n.a.
Rates changed for:						
Loan to industry up to one year d/	14.3	16.4	19.8	15.3	12.8	12.4
Loan to industry up to five years d/	14.5	16.6	17.9	15.9	13.4	12.6
Loans to the agricultural sector up to one year e/	11.4	12.9	13.3	11.1		
Loans to the agricultural sector up to five years e/	11.0	12.6	13.8	10.7	9.8	9.5
Personal loans by the finance companies	n.a.	n.a.	n.a.	n.a.	n.a.	19.7
Term loans to industry by Banco Nacional de Panama f/	11.0	11.0	11.0	11.0	14.0	14.0
Agricultural credits by Banco Nacional de Panama						
Term Loans by COFINA	14.0	14.0	15.5	15.5	k/	k/
Agricultural credits from Banco de Desarrollo Agropecuario						
Mortgages supplied by Banco Hipotecario Nacional g/	n.a.	n.a.	n.a.	n.a.	12.0	12.0
Mortgages supplied by Caja de Ahorros h/	n.a.	n.a.	n.a.	n.a.	12.0	12.0
Mortgages supplied by private housing Banks i/	n.a.	n.a.	n.a.	n.a.	13.0	12.5
Mortgages supplied by other commercial Banks j/	n.a.	n.a.	n.a.	n.a.	14.0	13.0
Memorandum items:						
Percentage change in consumer price index	10.0	11.1	6.3	4.0	1.8	n.a.
Six month LIBOR (annual average)	12.3	14.1	16.9	13.6	9.8	n.a.

a/ Up to end February.
b/ Including Banco Nacional de Panama.
c/ Also the private housing banks.
d/ By Commercial Banks.
e/ By Commercial Banks at the preferencial rate.
f/ Up to 10 years.
g/ New mortgages.
h/ New mortgages.
i/ On loans between $20,000 and $50,000.
j/ Primer Banco de Ahorros, Banco General and Banco Panameno de la Vivienda.
k/ COFINA extended no new loans in these years.

Source: National Banking Commission.

Table 6.10: DEPOSIT STRUCTURE AT GENERAL LICENSED BANKS a/, 1970-1983
(US$ Millions)

Year	Demand Deposits	%	Time Deposits	%	Savings Deposits	%	Total Savings	%
1970	99.1	34	103.6	36	86.1	30	288.8	100
1971	103.8	30	139.6	41	101.2	29	344.6	100
1972	142.3	32	177.6	40	125.4	29	445.3	100
1973	154.0	30	224.4	44	133.4	26	511.8	100
1974	191.3	32	274.9	45	138.9	23	605.1	100
1975	169.9	27	309.3	49	155.3	24	634.5	100
1976	185.9	27	321.8	47	175.8	26	683.5	100
1977	208.9	26	392.8	49	195.6	25	797.3	100
1978	242.2	26	490.3	52	217.2	22	949.7	100
1979	295.9	25	623.1	54	243.4	21	1,162.4	100
1980	329.8	23	876.1	60	248.5	17	1,454.4	100
1981	353.7	21	1,109.7	65	256.5	15	1,719.9	100
1982	375.5	19	1,294.1	66	278.1	15	1,947.7	100
1983 b/	366.4	19	1,318.0	68	283.5	14	1,967.9	100

a/ Excluding deposits by Government agencies and banks.
b/ September 30.

Source: National Banking Commission.

Table 6.11: SAVINGS ACCOUNTS BY SIZE, 1979 and 1982

Size (US$)	1979 Number	%	Amount ($000)	%	Average ($)	1982 Number	%	Amount ($000)	%	Average ($)
Less than 250	503,017	80.7	33,995	14.0	68	635,290	81.1	33,384	11.6	53
251 - 500	48,297	7.7	14,299	5.9	296	52,007	6.6	19,758	6.8	380
501 - 1,000	27,546	4.4	17,639	7.2	640	31,283	4.0	25,669	8.9	821
1,001 - 5,000	35,183	5.6	73,721	30.3	2,095	53,965	6.9	94,835	32.8	1,757
5,001 - 10,000	5,786	0.9	38,290	15.7	6,618	6,986	0.9	49,032	17.0	7,019
10,001 - 14,000	1,613	0.3	18,226	7.5	11,299	2,027	0.3	21,193	7.4	10,521
14,001 - 20,000	788	0.1	12,599	5.2	15,989	1,008	0.1	15,593	5.4	15,369
Over 20,000	1,014	0.2	34,676	14.2	34,197	928	0.1	29,193	10.1	31,458
Total	623,244	100.0	243,445	100.0	71,202	783,494	100.0	288,657	100.0	67,378

Source: National Banking Commission.

Table 6.12: HOUSING FINANCE: TERMS AND CONDITIONS, 1983 a/

Institution	Average Loan (Balboas)	Average Annual Interest (Percent)	Average Terms (Years)
National Mortgage Bank	12,300	12.0 f/	15
Savings and Loan Associations	15,600	9.0 b/	15
Social Security Agency	20,000	12.0 c/	25
Caja de Ahorros	30,000	11.5 d/	15
Private Mortgages Banks	60,000	12.5 d/	15 e/
Commercial Banks	60,000	13.0 d/	15 e/

a/ As of December 1983.
b/ Plus an administrative fee of 2 percent
c/ For new mortgages granted after September 1983.
d/ Variable.
e/ Renewal every five years; closing fee of 2 or 3 percent payable at renewal.
f/ After January 1984 this will be reduced by 3 or 4 percent for mortgages of B/. 20,000 or less.

Sources: National Banking Commission, USAID and World Bank estimates.

Table 6.13: CREDITS AND DEPOSITS OF THE GENERAL LICENSED BANKS, 1976-1983
(US$ million)

	1976	1977	1978	1979	1980	1981	1982	1983 a/
Total Loans	6,370.9	8,045.5	10,338.5	13,062.4	15,278.0	20,445.7	21,232.9	19,983.5
Internal	(1,628.3)	(1,765.5)	(1,843.3)	(2,133.2)	(2,530.6)	(3,146.0)	(3,350.9)	(3,502.5)
External	(4,742.6)	(6,280.0)	(8,695.2)	(10,909.2)	(12,747.4)	(17,299.7)	(17,882.0)	(16,481.0)
Total Deposits	8,879.4	11,551.6	15,204.3	21,634.0	21,144.9	27,242.0	28,986.9	27,335.2
Internal	(994.8)	(1,199.4)	(1,553.0)	(1,802.4)	(2,406.0)	(3,201.5)	(3,526.8)	(3,224.4)
External	(7,884.6)	(10,352.2)	(13,651.3)	(19,831.6)	(18,738.9)	(24,040.5)	(25,660.1)	(24,110.8)
Ratio Between Internal Deposits and Internal Loans	1.64	1.47	1.19	1.18	1.05	0.98	0.95	1.09

a/ Preliminary.

Source: National Banking Commission.

Table 6.14: CONSOLIDATED BALANCE SHEET OF THE GENERAL LICENSED BANKS,[a] 1979-83
(US$ Millions)

	1979	1980	1981	1982	1983 b/
TOTAL ASSETS	23,014.6	23,064.7	29,907.2	32,585.4	31,363.3
Liquid Assets	8,886.5	6,114.2	6,967.0	8,463.5	8,721.6
Loans	13,042.4	15,278.0	20,445.7	21,232.9	19,983.5
Credit to non-residents	10,909.2	12,747.4	17,299.7	17,882.0	16,481.0
Domestic credit	2,133.2	2,530.6	3,146.0	3,350.9	3,502.5
Private Sector	1,782.0	2,139.5	2,574.0	2,651.1	2,664.1
Public Sector	351.2	391.1	572.0	699.8	838.4
Securities	268.6	646.7	904.2	1,290.5	1,347.6
Other Assets	817.1	1,025.8	1,590.3	1,598.5	1,310.6
TOTAL LIABILITIES	23,014.6	23,066.7	29,907.7	32,585.4	31,363.3
Deposits	21,634.0	21,144.9	27,242.0	28,986.9	27,335.2
Domestic Deposits	1,802.4	2,406.0	3,201.5	3,526.8	3,224.4
Public Sector	110.5	127.1	195.2	222.4	240.5
Private Sector (non-bank)	1,164.6	1,476.6	1,740.9	1,949.5	1,895.0
Demand Deposits	295.6	329.3	353.4	375.4	308.7
Fixed term deposits	625.6	898.8	1,130.8	1,296.0	1,302.8
Savings	243.4	248.5	256.5	278.1	283.5
Banks	527.3	802.3	1,265.4	1,356.9	1,088.9
Liabilities to non-residents	19,831.6	18,738.9	24,040.5	25,460.1	24,110.8
Private (non-bank)	2,290.0	2,563.4	3,696.0	4,102.6	4,235.9
Banks	17,541.6	16,175.5	20,344.5	21,357.5	19,874.9
Other Liabilities	950.6	1,270.6	1,923.0	2,572.7	2,985.7
Capital and reserves	430.0	649.2	742.2	1,025.8	1,042.4

a/ Including Banco Nacional de Panama and Caja de Ahorros.
b/ September 30, 1983.

Source: National Banking Commission.

Table 6.15: SAVINGS ACCOUNTS IN THE OFFICIAL AND PRIVATE GENERAL LICENSED BANKS: PERCENT DISTRIBUTION BY SIZE, 1982
(as of December 31, 1982)

Savings Account Size (Balboas)	Percent in			
	Official Banks		Private Banks	
	By Number	By Amount	By Number	By Amount
Less than 250	88.6	21.0	62.4	5.0
251 - 500	5.2	8.7	10.1	5.5
501 - 1,000	2.6	11.1	7.5	7.4
1,001 - 5,000	3.1	34.0	16.2	32.0
5,001 - 10,000	0.3	10.5	2.4	21.5
10,001 - 14,000	0.1	4.1	0.7	9.6
14,001 - 20,000	0.1	4.1	0.4	6.4
Over 20,000	0.0	6.5	0.3	12.3
Total	100.0	100.0	100.0	100.0

Source: National Banking Commission.

VII.

AGRICULTURE

Table 7.1: PRINCIPAL STAPLE CROPS: AREA, PRODUCTION, YIELDS AND GROWTH RATES, 1970-83

	70-71	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	Compound Average Growth Rates a/ 61/63-70/72 (9 years)	70/72-75/77 (5 years)	77/80-80/83 (7 years)
Rice																
Area (000 ha.)	93.1	95.6	105.2	105.4	112.2	115.4	122.4	110.0	99.1	98.5	100.7	104.2	106.1	-0.2%	3.4%	1.1%
% change	n.a.	2.6	10.0	1.9	6.5	2.9	6.1	10.3	-9.9	-0.6	2.2	3.5	1.8			
Production (000 cwt)	2,891.5	3,002.1	2,760.6	3,574.6	3,932.4	4,074.9	3,184.9	4,104.7	3,579.9	3,539.4	3,762.1	4,302.5	3,887.0	2.1%	5.6%	6.5%
% change	n.a.	3.8	-8.0	29.5	10.0	3.6	21.8	28.9	-12.8	-1.1	6.3	14.4	-9.7			
Avg. yield per ha (cwt)	31.0	31.4	26.2	33.9	35.0	35.3	26.0	37.3	36.1	35.9	37.4	41.3	36.6	2.3%	8.4%	5.5%
% change	n.a.	1.3	-16.6	29.4	3.2	0.9	-26.3	43.5	-3.2	-0.6	4.1	10.4	-11.4			
Corn																
Area (000 ha.)	64.9	63.1	65.7	67.6	75.5	74.3	83.2	82.8	68.6	69.6	58.2	60.4	68.8	-2.6%	21.4%	-15.2%
% change	n.a.	-2.8	4.1	2.9	11.7	-1.6	12.0	-0.5	-17.1	1.5	-16.4	-3.8	13.9			
Production (000 cwt)	1,243.8	1,192.2	977.7	1,208.0	1,308.7	1,437.7	1,410.3	1,757.0	1,421.8	1,395.9	1,189.3	1,256.0	1,364.7	-2.7%	6.2%	-16.7%
% change	n.a.	-4.1	-18.0	26.6	8.3	9.9	-1.9	24.6	-19.1	-1.8	-14.8	5.6	8.7			
Avg. yield per ha (cwt)	19.2	18.9	14.9	17.9	17.3	19.3	17.0	21.2	20.7	20.0	20.4	20.8	19.8	-0.2%	1.8%	-1.5%
% change	n.a.	-1.6	-21.2	20.1	-3.4	11.6	-11.9	24.7	-2.4	-3.4	2.0	2.0	-4.8			
Dry Beans																
Area (000 ha.)	13.6	12.0	10.3	12.1	16.1	16.6	15.6	14.8	11.8	11.0	9.5	9.3	8.7	-6.5%	5.5%	-26.9%
% change	n.a.	-11.8	14.2	17.5	33.1	3.1	6.0	5.1	-20.3	-6.8	-13.6	-2.1	-6.5			
Production (000 cwt)	72.7	72.9	68.8	77.1	89.4	92.5	72.7	88.9	72.0	81.9	54.6	73.7	43.7	-6.5%	3.5%	-29.2%
% change	n.a.	0.3	-5.6	12.1	16.0	3.5	-21.4	22.3	-19.0	13.8	-33.3	35.0	-40.7			
Avg. yield per ha (cwt)	5.4	6.1	6.7	6.4	5.6	5.6	4.7	6.0	6.1	7.4	5.7	7.9	5.0	n.a.	7.1%	-4.6%
% change	n.a.	13.0	9.8	-4.5	-12.5	0.0	16.1	27.7	1.7	21.3	-23.0	38.6	-36.7			

a/ Based on three-year averages.

Source: Comptroller General.

Table 7.2: WHOLESALE PRICES FOR SELECTED PRODUCE IN PANAMA CITY, FEB. 29, 1984

PRODUCE ITEM	PRICE a/
Potatoes	32.00
Onions	27.00
Red Beets	23.00
Eggplant	23.00
Lettuce	18.00
Otoe	17.00
Tomatoes	15.00
Name	15.00
Carrots	15.00
Cabbage	13.00
Yuca	5.50
Plantains	3.50
Oranges, navel (out of season)	8.00 per 100
Oranges, juice	2.00 per 100
Chayote	5.00 per 100
Pineapple (high season)	5.00 per dozen
Watermelon	2.50-3.00 each
Melon (Cantaloupe)	0.40 each

a/ Balboas per cwt except as noted.

Source: World Bank estimates.

Table 7.3: SELECTED PRICE INDICES, 1983
(1982 = 100)

WHOLESALE		
General		102.4
Agricultural products		104.0
Food	103.8	
Drink & Tobacco	112.7	
CONSUMERS (Panama City)		
General		102.1
Food & Drink		103.8

Source: World Bank estimates.

Table 7.4: AVERAGE PRODUCER PRICES RECEIVED BY FARMERS,a/ 1970-83

(Balboas per unit)

	Unit	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Rice, rough b/	100 lb.	5.63	5.86	5.84	5.88	6.98	8.92	9.07	9.49	9.74	9.84	10.98	14.05	13.31	12.18
Corn	100 lb.	4.40	4.78	4.75	5.02	6.66	8.05	8.12	8.13	9.13	9.43	10.43	11.21	12.21	12.87
Cowpeas c/	100 lb.	11.10	10.89	11.84	13.01	20.64	22.63	14.92	16.22	19.29	20.61	24.50	24.74	27.65	29.60
Yuca	100 lb.	1.93	2.08	2.18	2.20	2.41	2.91	3.00	3.10	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Potatoes	100 lb.	6.87	6.74	7.22	7.79	8.92	9.82	10.28	12.28	11.90	14.27	19.75	18.92	16.81	26.00
Coffee	100 lb.	33.58	1 14	34.05	35.66	49.12	47.99	49.08	58.06	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tobacco b/	100 lb.	44.73	50.28	49.19	56.30	75.14	72.33	71.12	69.72	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cocoa	1 lb.	0.28	0.22	0.20	0.32	0.48	0.45	0.54	0.94	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Oranges	10 lb.	0.90	0.93	1.10	1.14	1.32	1.37	1.45	1.72	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bananas	stalk	0.74	0.78	0.79	0.78	0.86	0.96	1.00	1.11	1.38	1.34	1.52	1.62	1.72	1.84
Tomatoes d/	1 lb.	0.18	0.16	0.17	0.18	0.22	0.26	0.26	0.29	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cabbage	1 lb.	0.09	0.08	0.08	0.11	0.12	0.12	0.15	0.15	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Carrots	1 lb.	0.09	0.07	0.09	0.13	0.15	0.15	0.15	0.16	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lettuce American	1 lb.	0.12	0.09	0.11	0.15	0.19	0.22	0.21	0.21	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chickens	1 lb.	0.46	0.49	0.52	0.54	0.62	0.70	0.71	0.72	0.77	0.83	0.94	1.03	1.08	1.12
Milk Fresh	bottle	0.12	0.12	0.12	0.14	0.16	0.17	0.18	0.19	0.21	0.21	0.22	0.24	0.23	0.27
Eggs	dozen	0.54	0.56	0.59	0.60	0.69	0.72	0.71	0.73	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a/ At market, not at farmgate.
b/ First Grade.
c/ Colorado or Chiricano.
d/ Large.

Source: Comptroller General.

Table 7.5: INDEX OF AVERAGE PRODUCER PRICES RECEIVED BY FARMERS, 1970-83 a/

(1970 = 100)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
General Index	100.0	102.8	105.2	110.6	129.8	146.7	150.9	161.4	180.4	185.9	204.5	231.5	236.9	n.a
Rice	100.0	104.1	103.7	104.4	124.0	158.4	161.1	168.6	173.0	174.8	195.0	240.6	236.4	216.3
Corn	100.0	108.6	108.0	114.1	151.4	183.0	184.6	184.8	207.5	214.3	237.1	254.8	277.5	292.5
Cowpeas	100.0	98.1	106.7	117.2	186.0	203.9	134.4	146.1	173.8	185.7	220.7	222.9	240.1	266.7
Yuca	100.0	107.8	113.0	114.0	124.9	150.8	155.4	160.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Potatoes	100.0	98.1	105.1	113.4	129.8	142.9	149.6	178.8	173.2	207.7	287.5	275.4	244.7	378.5
Coffee	100.0	104.7	101.4	106.2	146.3	142.9	146.2	172.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tobacco	100.0	112.4	110.0	125.9	168.0	161.7	159.0	155.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cocoa	100.0	78.6	71.4	114.3	171.4	160.7	192.9	335.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Oranges	100.0	103.3	122.2	126.7	146.7	152.2	161.1	191.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Bananas	100.0	105.4	106.8	105.4	116.2	129.7	135.1	150.0	186.5	181.1	205.4	218.9	232.4	248.6
Tomatoes	100.0	88.9	94.4	100.0	122.2	144.4	144.4	161.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Cabbage	100.0	88.9	88.9	122.2	133.3	133.3	166.7	166.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Carrots	100.0	77.8	100.0	144.4	166.7	166.7	166.7	177.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
American Lettuce	100.0	75.0	91.7	125.0	158.3	183.3	175.0	175.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chicken	100.0	106.5	113.0	117.4	134.8	152.2	154.3	156.5	167.4	180.4	204.3	223.9	234.8	243.5
Fresh Milk	100.0	100.0	100.0	116.7	133.3	141.7	150.0	158.3	175.0	175.0	183.3	200.0	191.7	225.0
Eggs	100.0	103.7	109.3	111.1	127.8	133.3	131.5	135.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

a/ At market, not at farmgate.

Sources: Statistical Appendix Table 7.4 and Comptroller General.

Table 7.6: MINIMUM PRODUCER PRICES FOR SELECTED CROPS AND LIVESTOCK PRODUCTS, 1975-83
(Balboas per Unit)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Crops (100 lb) a/									
Rice	10.00	10.50	10.50	10.00	10.25	14.00	14.00	14.00	13.00
Corn	8.50	8.50	8.50	8.50	9.00	10.80	11.25	11.25	11.25
Beans	22.50	15.00	15.00	15.00	15.00	15.00	20.00	20.00	20.00
Peas	45.00	45.00	45.00	45.00	46.50	46.50	46.50	46.50	47.00
Sorghum	7.50	7.50	7.50	7.50	8.25	10.00	10.25	10.25	10.25
Potatoes	11.00	11.40	14.00	14.00	14.50	18.50	18.50	18.50	c/
Onions	15.50	13.00	13.00	13.00	13.00	16.00	17.00	18.50	19.50
Coffee									
High quality	n.a.	n.a.	n.a.	n.a.	100.00	100.00	100.00	100.00	100.00
Low Quality	n.a.	n.a.	n.a.	n.a.	75.00	75.00	75.00	75.00	75.00
Soybean	n.a.	n.a.	n.a.	12.50	12.50	16.00	16.00	16.00	16.00
Livestock products									
Beef (lb) b/	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	n.a.
Milk, grade A (liter)	0.22	0.24	0.24	0.24	0.24	0.28	0.30	0.36	0.37

a/ Prices effective at the beginning of the crop year (October 1 for most crops).
b/ For live animals weighing 900 pounds or more.
c/ Freed of Price Controls by Resolution of MIDA N°ALP-27 March, 1983.

Source: Agricultural Marketing Institute (IMA).

Table 7.7: POTATOES: AVERAGE MONTHLY WHOLESALE PRICES, 1982-1984
(cents per lb.)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
1982	20.1	20.1	21.5	21.3	18.6	19.9	17.6	17.6	20.8	20.8	18.8	17.2
1983	16.0	13.3	14.4	18.0	19.7	22.5	29.4	29.0	24.0	25.3	28.0	31.0
1984	30.3 a/	35.3										

a/ Office of Price Regulation.

Source: IMA.

Table 7.8: BANANA EXPORTS BY PRODUCER, 1975-83

(million boxes of 40 to 42 lbs.)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
TOTAL	27.6	28.9	31.5	35.0	30.9	27.6	30.2	31.1	36.0
Pacific:	14.1	14.8	18.1	20.3	15.6	11.1	13.5	12.9	16.7
COBAPA	0.2	0.9	2.4	2.9	1.1	0.8	0.9	n.a.	n.a.
Independent Prod.	3.1	2.9	4.0	4.5	4.4	4.2	3.9	4.4	5.9
Chiriqui Land Co.	10.8	11.0	11.7	12.9	10.1	6.1	8.7	8.5	10.8
Atlantic:	13.5	14.1	13.4	14.7	15.3	16.5	16.7	18.2	19.3
COBANA	0.6	0.7	0.8	0.8	1.0	1.0	0.8	0.8	1.1
Independent Prod.	1.2	1.4	1.4	1.6	1.8	1.4	1.9	2.2	2.3
Chriqui Land Co.	11.7	12.0	11.2	12.3	12.5	14.1	14.0	15.2	15.9

Source: Weekly Reports of Chiriqui Land Co.

Table 7.9: EXPORTS OF PRINCIPAL AGRICULTURAL PRODUCTS CONTROLLED BY IMA, 1983

PRODUCT	QUANTITY net (MT)	VALUE, FOB (000 $)	UNITS TRADED
Rice, paddy	3,689	732	a/
Rice, milled	3,296	945	a/
Cacao butter	494	1,924	a/
Cacao powder	175	82	a/
Watermelons	33	8	1,600 boxes
Melons	386	175	31,000 boxes
Green plantains	547	100	21,763 boxes
Bananas (1000 boxes)	36,172	69,450	a/
Hides, raw salted	1,702	733	35,950 hides
Hides, chrome tanned	85	91	12,250 hides
Leather, finished	176	1,045	1,464,000 sq. ft.
Leather, semifinished	1,954	2,474	4,576,400 sq. ft.
Cattle, live	2,825	3,471	9,342 head
Beef carcasses	968	1,831	a/
Beef, boneless	897	2,052	a/
Coffee	2,254	6,202	a/

a/ Same as given in Quantity Column.

Source: IMA.

Table 7.10: IMPORTS OF PRINCIPAL AGRICULTURAL PRODUCTS CONTROLLED BY IMA, 1983

PRODUCT	QUANTITY (MT)	VALUE	
		FOB	CIF
Wheat	73,970	13,240	14,978
Maize	37,971	5,260	6,052
Soybean meal	12,359	3,399	4,074
Ingredients for feed preparation	1,774	986	1,206
Kidney beans	1,231	749	862
Cowpeas	93	82	94
Onions	1,181	161	323
Crude soybean oil	23,497	13,060	14,030
Crude coconut oil	649	461	517
Refined soybean oil	207	139	170
Other edible oil	433	538	616
Fish meal	560	254	296
Dried skim milk	2,500	2,111	2,517
Dried whole milk	1,841	3,054	3,443
Butterfat	1,815	4,152	4,551
Cottage cheese	1,533	2,537	3,137
Frozen meat	27	223	234
Tallow	1,517	716	876
Cacao powder	466	924	1,065
Cacao beans	370	785	837
Maize gluten	3,552	1,486	1,748
Hand tools	n.a.	515	630
Farm mach. & spares	n.a.	865	1,065
Fertilizer	11,366	1,627	2,018
Herbicide & pesticide	339	860	979

Source: IMA.

Table 7.11: RICE AND CORN PURCHASES BY IMA, 1971-83 a/
(Thousands of Quintales)

	RICE			CORN		
	Total Sales	IMA Purchases	IMA Purchases as Percent of Total Sales	Total Sales	IMA Purchases	IMA Purchases as Percent of Total Sales
1971/72	2,038.4	134.0	6.6	387.5	102.4	26.4
1972/73	2,020.8	111.0	5.5	244.4	152.9	62.6
1973/74	2,479.9	491.6	19.8	326.2	81.1	24.9
1974/75	2,976.8	725.8	24.4	405.7	144.8	35.7
1975/76	2,795.4	1,218.2	43.6	485.9	257.5	53.0
1976/77	2,179.6	156.5	7.2	563.3	123.4	21.9
1977/78	2,705.9	361.8	13.4	661.5	258.6	39.1
1978/79	2,560.5	395.2	15.4	578.2	133.3	23.1
1979/80	2,418.5	421.9	17.4	549.5	154.4	28.1
1980/81	2,926.7	283.1	9.7	541.5	141.5	26.1
1981/82	3,136.6	760.2	24.2	500.4	165.8	33.1
1982/83	3,201.3	609.2	19.0	600.0	174.5	27.2
1983/84 b/	3,105.3	375.3	12.1	750.0	174.5	23.2

a/ Years ended June 30.

b/ Estimates.

Source: Agricultural Marketing Institute (IMA).

TABLE 7.12: IMPORT DUTIES IMPOSED ON SELECTED FOOD PRODUCTS FREED FROM QUOTAS, AS OF MARCH, 1984.

PRODUCT	IMPORT DUTY Ad valorem (%)	Specific ($ per gross kg)
Beef, fresh, frozen or chilled	n.a.	2.50
Pork, fresh, frozen or chilled	n.a.	2.50
Poultry, fresh, frozen or chilled	95	2.00
Hams, dried, salted, etc.	n.a.	4.00
Pork, other, prepared	82	4.50
Sausages, etc., not canned	n.a.	3.50
Bacon & ham, canned	n.a.	4.00
Deviled ham	3	0.10
Yogurt	70	1.25
Condensed milk	95	3.00
Cheese, proc. American type	35	1.16
Fresh eggs	n.a.	1.25 per doz.
Wheat	25	0.05
Wheat flour	45	0.40
Pastas	88	1.00
Oranges & tangerines	150	1.00
Fresh plantains	150	1.50
Fresh coconuts	n.a.	0.40
Grated coconuts, edible	n.a.	1.25
Jams, jellies, etc.	66-97	1.00-1.10
Fruit juices & nectars	75	0.80
Starchy root vegetables	75	0.75
Various fresh vegetables	n.a.	1.25
Potato chips	76	1.95
Mustard & mayonnaise	56-73	0.90-1.22

Source: Ministry of Commerce and Industry.

Table 7.13: PRODUCTION AND DISTRIBUTION OF SEED, 1982.
(Quintales and Percent)

	ENASEM a/	PRIVATE FIRMS	TRADERS	MILLS & COMMERCIAL PROD.	TOTAL
RICE	30,000 (20%)	45,000 (30%)	0 (0%)	75,000 (50%)	150,000 (100%)
MAIZE	850 (17%)	n.a. (n.a.)	4,000 b/ (80%)	n.a. (n.a.)	5,000 (100%)
SORGHUM	1,000 b/ (15%)	0 (0%)	5,000 b/ (85%)	0 (0%)	6,000 (100%)
BEANS	200 (20%)	0 (0%)	0 (0%)	800 (80%)	1,000 (100%)
POTATOES	0 (0%)	0 (0%)	20,000 b/ (60%)	15,000 (40%)	35,000 (100%)

a/ National Seed Company.

b/ Imported seed.

Source: National Seed Company.

Table 7.14: AGRICULTURAL PRODUCTION, 1970-82

(Thousands of Metric Tons)

Year	Bananas	Sugar Cane	Rice	Maize	Sorghum	Tobacco	Coffee	Potatoes	Tomatoes	Beef	Milk	Pork	Eggs	Poultry Meat
1970	947	1185	127	56	n.a.	0.6	5.1	5	29	34	73	9	7.0	7
1971	940	1350	136	54	n.a.	1.2	5.6	5	27	37	76	9	9.0	8
1972	920	1600	102	49	2.5	1.2	5.6	5	27	42	70	10	10.0	9
1973	964	1354	162	55	7.5	0.5	4.3	13	30	39	66	n.a.	12.6	6
1974	977	1433	178	59	13.0	0.7	4.5	13	22	41	64	n.a.	10.8	6
1975	977	1722	178	61	19.3	0.8	4.2	13	22	42	66	n.a.	11.1	6
1976	999	1925	144	64	18.9	1.0	5.0	11	19	48	75	5	13.9	11
1977	1028	2396	186	80	22.7	1.0	6.0	11	20	48	86	6	12.8	10
1978	742	2757	211	83	45.0	1.0	5.0	11	20	52	75	6	12.8	10
1979	1000	2624	170	63	39.1	2.0	6.0	10	25	38	95	7	14.8	12
1980	1050 b/	2386	162 a/	63 a/	26.9	1.0	7.0 a/	12 a/	26 b/	41	98	7	14.2	13 b/
1981	1080 b/	2795 a/	192 a/	63 a/	17.5	1.0 a/	7.0 a/	11 a/	27 b/	49 a/	98 b/	8 a/	15.0 b/	13 b/
1982	1100 b/	2800 b/	150 b/	63 b/	n.a.	2.0 a/	8.0 a/	11 b/	28 b/	55 a/	98 b/	9 a/	15.5 b/	14 b/

a/ Preliminary.
b/ Estimate.

Source: UN Food and Agriculture Organization.

Table 7.15: Bananas: Panama's Exports, Share of World and U.S. Markets, and Prices, 1970-82

Year	Exports (1000MT)	Share of World Exports (Percent)	Share of US Imports[a]/ (Percent)	Real Panama Export Price[b]/ ($/ton)	Real World Market Price[c]/ ($/ton)	Real US Import Price [d]/ ($/ton)
1970	601	10.1	32.6	200	186	222
1971	623	9.6	32.5	196	173	198
1972	684	9.9	35.3	192	176	194
1973	555	8.0	28.4	197	175	187
1974	472	7.2	23.0	154	170	170
1975	496	7.6	25.2	167	194	180
1976	524	7.9	24.1	157	194	191
1977	547	8.3	25.1	155	196	200
1978	562	8.0	24.4	156	199	195
1979	565	8.0	23.5	132	190	190
1980	505	7.3	20.8	122	184	177
1981	573	8.3	22.6	113	182	194
1982	524	7.5	19.7	n.a.	n.a.	n.a.

a/ Panama's exports of bananas divided by U.S. imports.

b/ Value of Panama exports divided by Panama tonnage, deflated by Panama CPI, 1980 = 100.

c/ Value of World exports divided by World tonnage, deflated by U.S. CPI, 1980 = 100.

d/ Value of U.S. imports divided by tonnage and deflated by the U.S. CPI, 1980 = 100.

Source: United Nations, FAO, Trade Yearbook, respective years.

Table 7.16: REAL AVERAGE PRODUCER PRICES RECEIVED BY FARMERS,[a] 1977-83

(1975 = 100)

	1977	1978	1979	1980	1981	1982	1983
Rice	92.1	89.6	79.5	76.8	89.4	78.2	68.9
Corn	87.4	93.1	84.4	80.9	79.0	79.5	80.7
Beans	62.1	70.0	65.6	67.6	62.0	64.0	66.0
Potatoes	108.3	99.5	104.7	125.5	109.3	89.7	133.6
Bananas	100.1	118.0	100.6	98.8	95.8	93.9	96.7
Chicken	89.1	90.3	85.4	83.8	83.5	80.9	80.7
Milk	96.8	101.4	89.0	80.8	80.1	70.9	80.1

a/ Deflated by wholesale price index.

Source: IMF.

Table 7.17: REAL GROSS VALUE OF AGRICULTURAL PRODUCTION, 1978-83

(Millions of 1970 Balboas)

	1978	1979	1980a/	1981a/	1982a/	1983b/
Total Crops	161.9	158.5	159.7	175.5	172.4	177.0
Rice	19.5	19.3	21.1	25.2	22.8	27.9
Corn	6.7	6.6	7.4	8.1	7.4	7.6
Plantains	4.3	4.2	4.2	4.2	4.5	5.2
Bananas	68.4	63.5	57.4	64.9	65.5	65.9
Sugarcane	16.1	14.7	19.1	20.9	19.8	17.1
Oranges	3.4	3.4	3.4	3.4	3.7	3.7
Tomatoes	2.3	2.7	2.5	2.1	2.4	2.4
Coffee	7.0	7.3	7.4	10.6	11.0	10.3
Other	34.2	36.8	37.2	36.1	35.3	41.9
Livestock	76.1	75.4	80.1	81.5	85.7	88.2
Forestry	6.5	6.7	6.7	6.8	7.1	7.4
Fish	9.9	11.3	13.8	13.0	13.0	13.3

a/ Preliminary.
b/ Estimate.

Sources: Comptroller General, Ministry of Agricultural Development, and IMF.

VIII.

MANUFACTURING AND OTHER SECTORS

TABLE 8.1: MANUFACTURING: GROSS VALUE BY SUBSECTOR, 1970-81
(Millions of Balboas)

ISIC CODE [a]	SUBSECTOR	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
311-312	Food processing	110.0	132.5	153.2	178.2	232.0	294.8	300.9	319.4	330.9	390.3	513.2	332.9
313	Beverages	29.5	31.3	37.7	41.3	46.2	48.0	51.3	52.3	64.1	83.8	84.3	109.6
314	Tobacco	10.0	11.4	12.3	14.3	15.6	19.7	20.6	22.3	25.1	28.6	29.4	37.8
321	Textiles	n.a.	1.5	2.2	3.3	3.5	5.8	5.1	4.6	6.4	7.6	5.1	9.8
322	Clothing	17.4	20.0	23.7	27.1	27.7	32.2	36.0	38.4	44.4	51.7	54.0	65.0
323	Leather prod.	1.0	1.2	1.5	1.9	2.1	2.4	4.3	4.9	6.1	9.5	5.8	7.2
324	Footwear	5.3	6.1	5.9	6.3	6.8	8.4	7.7	9.6	14.0	17.6	16.8	19.6
331	Wood products	5.9	6.7	6.6	8.6	9.6	7.9	8.9	10.4	10.0	12.4	12.3	17.5
332	Furniture	8.9	10.8	11.1	12.2	14.0	13.8	12.0	10.8	13.0	15.2	16.0	15.4
341	Paper & paper products	14.6	16.7	18.5	19.0	24.9	32.5	36.1	37.8	44.4	49.6	55.9	66.9
342	Printing & publishing	12.1	15.9	15.4	16.2	18.3	19.2	20.3	23.8	26.2	27.5	29.0	38.5
351	Industrial chem.	1.1	2.1	2.9	3.2	4.0	5.4	7.5	9.9	11.0	12.2	17.7	58.2
352	Other chemicals	12.6	13.9	17.4	20.3	23.1	29.5	34.4	34.7	40.5	42.2	51.8	66.1
355	Rubber products	0.7	0.8	0.9	0.9	1.0	1.4	1.9	2.4	3.1	3.0	2.4	3.6
356	Plastic products	4.3	4.9	6.7	8.0	11.1	12.2	15.0	15.9	20.0	25.5	28.9	35.7
362	Glass & glass products	0.8	1.2	1.2	1.6	1.7	1.6	1.4	1.0	1.4	1.5	2.0	10.7
369	Other non-metallic min.	21.2	26.3	28.0	37.1	42.4	38.1	38.5	41.5	40.8	55.4	72.9	83.4
371	Iron & steel	4.0	6.4	6.3	6.9	10.8	7.8	4.3	4.9	6.0	8.5	17.9	17.0
372	Basic non-ferrous metals	3.5	n.a.	n.a.	n.a.	n.a.	n.a.	2.5	3.0	2.5	4.3	...	6.2
381	Metal products	14.8	21.8	22.5	27.9	36.7	31.6	28.2	29.1	30.3	40.4	47.7	50.5
382	Non-electric machinery	0.6	0.6	0.9	0.7	0.7	0.7	1.7	1.2	1.0	1.1	...	1.8
383	Electric machin. & appl.	1.2	2.2	2.2	3.0	3.5	3.8	4.9	4.0	4.9	6.6	...	8.9
384	Transport equipment	1.2	0.8	1.4	3.4	3.6	2.8	2.9	3.0	2.6	3.0	...	7.4
390	Other manufacturing	75.6	103.1	104.5	137.7	321.8	355.8	296.3	305.5	249.0	371.6	446.6	459.1
TOTAL GROSS VALUE OF PRODUCTS		356.5	438.3	483.2	579.1	861.3	975.5	942.3	990.7	997.8	1,269.0	1,514.4	1,729.0

[a] International Standard Industrial Classification.

Source: Comptroller General.

TABLE 8.2: MANUFACTURING: VALUE ADDED IN 1970 PRICES BY SUBSECTOR, 1970-83
(1970 US$ Millions)

ISIC CODE a/	SUBSECTOR	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982b/	1983b/
311-312	Food-processing	31.8	36.5	39.3	41.7	43.1	44.3	48.0	51.6	49.2	58.2	62.1	60.4	61.9	63.0
313	Beverages	13.4	13.6	13.8	15.2	15.2	16.3	16.9	17.1	19.0	21.7	22.4	22.1	23.4	22.7
314	Tobacco products	6.0	6.1	5.9	6.2	6.4	6.7	6.6	6.0	6.6	6.4	6.6	6.4	6.2	5.9
321	Textiles	1.1	1.1	1.6	1.7	2.2	1.7	1.8	1.6	1.4	1.7	1.8	1.6	2.0	n.a.
322	Clothing	10.5	11.1	13.1	13.3	12.4	11.8	13.2	12.5	14.1	14.7	15.8	15.2	15.3	n.a.
323	Leather products	0.6	0.8	0.7	0.8	0.9	0.9	1.8	1.9	1.8	2.2	1.5	2.0	1.5	n.a.
324	Footwear	2.7	2.4	2.3	2.5	2.3	2.5	2.6	2.4	2.7	3.1	3.2	3.1	3.0	n.a.
331	Wood products	3.0	3.2	3.1	3.2	3.0	2.2	2.3	2.5	2.3	2.5	2.4	2.1	2.3	n.a.
332	Furniture	4.6	6.1	6.0	4.8	5.8	4.3	4.2	3.3	2.6	3.3	3.8	3.9	3.7	n.a.
341	Paper & paper prod.	3.8	4.2	4.3	4.1	3.8	4.7	5.3	5.4	6.0	7.0	8.2	7.1	7.2	7.9
342	Printing & publishing	6.0	6.5	5.8	6.4	5.4	3.3	4.9	4.1	5.3	4.4	4.3	3.9	4.3	5.1
351	Industrial chemicals	0.6	1.1	1.1	1.5	1.7	2.0	1.9	2.2	2.2	2.4	2.8	2.8	3.1	n.a.
352	Other chemicals	4.4	3.6	4.1	6.2	6.2	7.1	7.1	7.2	7.5	8.3	9.2	9.5	9.5	n.a.
353	Oil refining	12.9	12.8	13.2	12.2	11.7	13.5	9.7	9.5	7.9	7.4	6.4	4.9	5.5	n.a.
355	Rubber products	0.5	0.3	0.4	0.2	0.5	0.5	0.5	0.4	0.4	0.3	0.4	0.3	0.3	n.a.
356	Plastic products	1.8	1.7	2.2	2.7	2.9	3.2	3.2	3.8	4.0	4.6	4.8	4.6	4.9	n.a.
361	Pottery china	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	n.a.
362	Glass & glass products	0.3	0.5	0.5	0.6	0.4	0.3	0.3	0.3	0.4	0.3	2.1	2.2	1.8	n.a.
369	Other non-metallic min.	9.7	10.5	10.8	13.3	13.7	10.7	9.3	9.1	10.0	11.2	11.2	10.4	11.4	n.a.
371	Iron & steel	2.0	1.6	1.4	1.1	1.2	0.9	0.9	0.4	0.5	0.6	0.9	0.8	0.8	n.a.
372	Basic non-ferrous metals	0.3	0.3	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.5	0.4	0.4	0.4	n.a.
381	Metal products	7.3	7.4	7.8	7.7	8.1	4.9	4.6	6.0	5.5	5.3	5.8	4.9	5.5	n.a.
382	Non-electrical machinery	0.7	0.7	0.5	0.5	0.7	0.6	0.8	0.6	0.5	0.5	0.4	0.5	0.5	n.a.
383	Electrical machinery	0.6	0.6	0.6	0.6	0.6	0.8	0.9	1.0	1.1	1.3	1.3	1.8	1.8	n.a.
384	Transport equipment	1.0	0.9	1.1	2.1	2.2	1.8	1.8	1.5	1.4	1.6	2.0	2.2	2.1	n.a.
385	Scientific & other equip.	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.9	0.7	0.7	0.6	n.a.
390	Other manufacturing	1.3	1.4	1.2	1.1	1.2	1.2	1.2	1.2	1.5	1.7	1.4	2.2	1.8	n.a.
	TOTAL CONSTANT VALUE ADDED	127.3	135.4	141.6	150.5	152.5	147.0	150.7	152.5	154.9	172.9	182.1	176.1	180.3	176.1

a/ International Standard Industrial Classification.
b/ Preliminary.

Note: 1970 figures in Statistical Appendix Tables 8.2 and 8.3 disagree because they use different sources of information. Value Added at constant prices was determined from National Accounts data, while Value Added in current prices was determined from a manufacturing survey. The two sets of information are not compatible.

Source: Comptroller General.

Table 8.3: MANUFACTURING: VALUE ADDED BY SUBSECTOR, 1970-81 1/
(Millions of Balboas)

ISIC b/ CODE	SUBSECTOR	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1981
311-312	Food Processing	37.2	42.1	45.3	58.8	80.0	116.1	97.2	105.0	92.6	113.9	161.8
313	Beverages	15.8	15.7	18.8	20.1	21.2	21.4	27.2	24.8	32.1	51.0	58.4
314	Tobacco	7.0	7.9	8.8	10.3	11.2	15.2	14.0	16.4	17.9	17.3	29.2
321	Textiles	n.a.	0.7	1.2	1.3	1.6	2.6	2.5	2.1	2.7	2.6	4.2
322	Clothing	9.4	10.0	11.9	13.5	13.7	14.8	16.3	18.4	20.8	25.5	31.7
323	Leather prod.	0.6	0.7	0.7	0.9	0.9	1.2	2.1	2.2	2.9	4.0	3.2
324	Footwear	3.0	2.9	3.1	3.2	3.5	4.4	4.0	5.1	6.1	6.2	7.3
331	Wood products	3.2	3.7	3.5	4.6	5.0	4.1	4.4	4.8	4.8	6.1	8.4
332	Furniture	5.0	5.3	5.3	5.8	6.6	7.1	6.1	4.9	5.3	5.7	7.9
341	Paper & paper products	5.0	5.6	6.6	5.6	0.4	7.3	11.2	12.6	16.6	17.1	23.0
342	Printing & publishing	6.9	9.7	9.8	10.5	11.4	12.5	12.6	15.4	16.4	18.4	23.8
351	Industrial chem.	0.9	1.2	1.4	1.5	1.9	2.3	2.7	3.0	2.6	2.9	16.8
352	Other chemicals	6.2	6.0	8.0	10.3	9.8	13.1	15.9	15.0	19.3	18.2	27.5
355	Rubber products	0.5	0.4	0.5	0.3	0.6	0.9	0.9	0.9	1.4	1.4	1.9
356	Plastic products	2.0	2.1	3.2	3.4	4.5	3.7	6.3	6.4	9.0	9.2	14.2
362	Glass & glass products	0.4	0.7	0.6	0.8	0.9	1.0	0.7	0.5	0.7	0.7	4.8
369	Other non-metallic min.	11.2	13.7	15.6	19.9	22.0	16.2	15.4	17.3	17.0	27.3	33.8
371	Iron & steel	2.2	3.1	2.8	3.8	6.4	1.8	2.8	1.9	3.0	2.5	6.0
372	Basic non-ferrous metals	1.4	n.a.	n.a.	n.a.	n.a.	n.a.	1.1	1.4	1.2	2.1	3.3
381	Metal products	7.3	10.2	8.5	12.1	17.5	13.2	14.1	12.9	12.9	20.2	21.4
382	Non-electric machinery	0.4	0.5	0.7	0.6	0.5	0.6	1.0	0.9	0.8	0.7	0.9
383	Electric machin. & appl.	0.7	1.3	1.4	1.6	1.6	1.7	2.3	1.8	2.1	3.3	3.1
384	Transport equipment	0.9	0.7	1.0	1.4	1.8	1.9	2.0	2.4	1.8	2.0	5.9
390	Other manufacturing	19.7	19.7	15.2	22.9	24.5	9.2	5.2	17.1	10.4	32.5	29.9
TOTAL VALUE ADDED		146.7	163.9	173.9	213.0	257.6	272.2	267.9	293.2	300.2	390.8	528.4

a/ No data for 1980 are available because no Manufacturing Industry Survey was conducted that year.
b/ International Standard Industrial Classification.

Note: 1970 figures in Statistical Appendix Tables 8.2 and 8.3 disagree because they use different sources of information. Value added at constant prices was determined from National Accounts data, while Value added in current prices was determined from a Manufacturing Survey. The two sets of information are not compatible.

Source: Comptroller General.

Table 8.4: MANUFACTURING EXPORTS BY SITC: 1970-1982

SITC CODE	1970	1975	1980	1981	1982
Chemical Products	106	549	4,566	3,745	4,185
Manufactured Products (classified chiefly by material)	1,042	3,519	11,393	10,442	12,719
Leather, leather manufactures n.e.s.	312	827	2,407	2,561	5,224
Rubber manufactures n.e.s.	-	-	26	952	1,256
Wood and cork manuf. (excl. furniture)	3	57	409	548	378
Paper, paperboard	369	806	5,827	3,369	4,039
Textile yarn, fabrics	64	1,472	651	402	137
Non-metallic mineral manuf. n.e.s.	39	83	134	1,573	926
Iron and steel	-	-	-	8	-
Manufactures of metal n.e.s.	255	274	1,939	1,029	759
Machinery and Transport Equipment	21	26	462	423	351
Machinery, other than electric	21	-	-	66	9
Electrical mach., and appliances	-	26	462	357	342
Transport equipment	-	-	-	-	-
Miscellaneous Manufactures	381	4,032	14,776	16,688	21,213
Sanitary, plumbing	8	2	122	20	-
Furniture	50	14	76	67	4
Travel goods, handbags	-	3	93	132	81
Clothing	150	3,164	10,442	13,978	17,288
Footwear	10	36	1,217	768	1,718
Professional, scientific instruments	-	-	-	-	-
Miscellaneous manufactures n.e.s.	163	813	2,826	1,723	2,122
Total	1,550	8,126	31,197	31,298	38,468

Source: Comptroller General

Table 8.5: MANUFACTURING: STRUCTURE OF EXPORTS a/ BY SUBSECTOR, 1970-83
(Percent of Total Annual Value)

ISIC b/ CODE	SUBSECTOR	1970	1975	1980	1981	1982	Jan-Sept. 1983
311-312	Processed Food	43.0	39.9	29.1	23.0	13.5	34.0
313	Beverages	0.5	1.9	10.0	7.6	4.9	4.6
314	Tobacco	0.2	5.1	3.6	4.7	5.7	9.0
321	Textiles	1.6	9.2	1.7	1.6	1.9	0.2
322	Clothing	3.8	19.8	27.2	35.5	43.2	10.0
323	Leather goods	7.9	5.2	5.2	6.2	12.8	7.9
324	Footwear	0.3	0.2	0.3	0.2	0.3	1.9
331	Wood products	0.1	0.4	0.5	0.6	0.3	1.3
332	Furniture	1.3	0.1	...	...	...	...
341	Paper & paper prod.	11.9	5.0	7.4	3.1	3.7	5.9
342	Printing & publish.	0.8	0.5	0.1	...	0.4	1.1
351	Other chemicals	2.7	3.4	4.8	6.6	8.3	10.7
353	Rubber	...	...	...	...	1.0	3.1
356	Plastic products	...	...	1.3	0.7	...	0.7
36	Non-metallic minerals	1.0	0.5	...	3.6	0.1	2.4
37	Basic metals	14.5	4.2	3.3	1.9	2.0	2.4
38	Metal prod., machinery	7.0	1.9	5.5	2.7	1.9	3.0
39	Others	3.6	2.6	...	1.8	...	2.0
TOTAL		100.0	100.0	100.0	100.0	100.0	100.0

a/ Excludes processed meat, shrimp, and petroleum products.
b/ International Standard Industrial Classification.

Source: Statistical Appendix Table 8.4.

TABLE 8.6: MANUFACTURING: EMPLOYMENT BY SUBSECTOR, 1970-81 a/
(Number of Employees)

ISIC b/ CODE	SUBSECTOR	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1981
311-112	Food processing	5,780	6,416	6,689	7,422	7,326	7,981	7,981	8,613	8,789	9,636	10,562
313	Beverages	1,593	1,697	1,722	1,818	1,845	1,770	1,889	1,765	1,611	1,701	1,939
314	Tobacco	325	322	315	309	316	336	388	416	451	457	474
321	Textiles	n.a.	187	228	241	263	454	364	360	364	439	387
322	Clothing	2,957	3,565	3,648	3,749	3,452	3,673	3,870	3,688	3,971	4,110	4,886
323	Leather prod.	157	197	226	247	228	220	237	257	251	295	301
324	Footwear	861	954	865	850	825	884	683	898	1,044	1,120	1,098
331	Wood products	1,083	1,131	1,091	1,099	1,077	877	940	939	901	970	1,041
332	Furniture	1,164	1,404	1,341	1,323	1,255	1,176	1,057	969	1,076	1,082	1,315
341	Paper & paper products	1,759	847	894	835	792	832	855	864	919	919	1,155
342	Printing & publishing	1,666	1,809	1,710	1,743	1,802	1,712	1,701	1,696	1,733	1,715	2,110
351	Industrial chem.	56	75	102	101	138	152	165	166	170	171	233
352	Other chemicals	723	737	806	895	902	908	929	995	1,127	1,204	1,359
355	Rubber products	50	54	53	59	56	62	77	92	118	116	119
356	Plastic products	329	345	379	412	422	431	483	63	649	711	988
362	Glass & glass products	82	148	162	192	132	122	78	536	76	70	296
369	Other non-metallic min.	1,921	2,227	2,604	2,638	2,623	2,232	1,912	1,865	1,890	1,994	2,223
371	Iron & steel	293	465	413	481	436	368	231	254	288	368	392
372	Basic non-ferrous metals	139	n.a.	n.a.	n.a.	n.a.	n.a.	116	118	126	138	146
381	Metal products	1,239	1,754	1,678	1,921	1,755	1,500	1,282	1,281	1,457	1,287	1,423
382	Non-electric machinery	77	111	119	91	105	93	120	100	99	97	141
383	Electric machin. & appl.	81	142	156	186	169	173	162	194	192	215	226
384	Transport equipment	105	110	107	237	244	182	179	190	180	169	269
390	Other manufacturing	741	968	950	1,006	1,019	1,020	969	949	949	964	1,143
TOTAL		23,181	25,665	26,258	27,855	27,182	27,158	26,668	27,268	28,430	29,948	34,226

a/ No data for 1980 are available because no Manufacturing Industry Survey was conducted that year.
b/ International Standard Industrial Classification.

Source: Comptroller General.

TABLE 8.7: ELECTRIC POWER: UNIT COST BY COUNTRY, 1980

(US cents per kilowatt-hour)

COUNTRY	AVERAGE 1980 COST [a]
PANAMA: Colon	8.0
Sri Lanka	2.0
Jamaica	3.2
USA: Miami	3.3
El Salvador	3.6
Honduras	3.8
Mexico: Juarez	4.4
Colombia	4.4
Dominican Rep.: La Romana	5.1
Costa Rica	5.4
Barbados	6.5
Puerto Rico	7.0
Philippines	7.0
Haiti	9.3
Guatemala	12.3
Curacao	13.4

a/ All figures are as of year end 1980, except that of El Salvador, which applies to 1979.

Source: Information for Investment Decisions, Inc.: Rate Study for the Colon Free Zone.

TABLE 8.8: ELECTRICITY AND PETROLEUM DOMESTIC PRICES, 1975-84

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
	(Balboas per megawatt-hour)									
Electricity prices										
Average	55.9	57.5	66.8	73.5	75.5	97.2	105.7	114.5	126.8	129.8
Residential	59.7	60.6	73.2	78.8	83.4	105.6	114.8	127.1	133.4	141.5
Commercial	55.7	56.4	67.8	72.8	77.7	95.2	109.2	114.2	123.9	130.8
Industrial	48.7	52.0	65.7	68.5	72.9	89.3	97.9	105.4	118.0	121.6
Government	53.9	56.7	69.3	71.8	76.8	93.3	99.4	107.7	116.4	123.1
	(Balboas per gallon)									
Petroleum prices										
Gasoline premium	0.87	1.00	1.10	1.10	1.32	1.99	2.29	2.32	2.28	2.28
Gasoline regular	0.81	0.90	1.00	1.00	1.22	1.86	2.15	2.18	2.14	2.14
Diesel	0.37	0.50	0.55	0.55	0.70	1.15	1.37	1.40	1.33	1.33
Kerosene	0.41	0.50	0.55	0.55	0.71	1.06	1.29	1.30	1.20	1.20

Sources: Price Regulation Board (ORP) and IRHE.

Table 8.9: Petroleum: Trade and Domestic Sales, 1977-83

	1977	1978	1979	1980	1981	1982	1983a/
	(US$ Millions)						
Imports, f.o.b.	n.a.	n.a.	319.4	414.8	415.4	399.2	374.6
Crude and partially refined	n.a.	n.a.	301.7	386.1	346.9	364.4	326.7
Refined	n.a.	n.a.	17.7	28.7	68.5	34.8	47.9
Exports, f.o.b.	181.3	141.6	170.0	233.3	209.1	166.6	131.2
Domestic sales	108.8	106.2	152.5	247.6	272.2	304.3	331.7
Gasoline	36.8	38.1	54.9	98.1	113.0	112.5	109.5
Diesel	32.1	33.4	45.3	75.4	92.0	96.7	132.6
IRHE	8.0	6.2	3.2	3.3	3.9	4.8	48.1
Other users	24.1	27.2	42.1	72.1	88.1	91.9	84.5
Fuel oil	29.4	23.5	38.3	55.0	46.6	74.5	72.6
IRHE	23.0	16.1	26.2	42.0	33.0	60.4	59.1
Other users	6.4	7.4	12.1	13.0	13.6	14.1	13.5
Kerosene	1.4	1.3	1.7	2.2	2.9	2.7	2.2
LP gas	7.5	8.0	9.2	13.5	14.4	13.9	12.7
Other products	1.6	1.9	3.1	3.4	3.5	4.0	2.0
	(Millions of Barrels)						
Imports of crude and partially refined oil, c.i.f.	20.5	16.7	15.6	13.8	10.7	11.7	11.8
Imports of refined products, c.i.f.	n.a.	n.a.	n.a.	n.a.	n.a.	0.6	1.0
Exports	12.9	10.3	7.3	7.7	6.3	5.7	3.7
Refinery output	20.4	17.0	14.4	13.4	10.4	11.8	11.8
Domestic sales	6.9	6.6	6.9	6.4	5.8	6.6	7.5
Gasoline	2.0	2.1	2.0	1.9	1.8	1.8	1.7
Diesel	1.8	1.9	1.9	1.8	1.9	1.9	2.7
IRHE	0.4	0.3	0.1	0.1	0.1	0.1	1.0
Other users	1.4	1.6	1.8	1.7	1.8	1.8	1.7
Fuel oil	2.4	1.9	2.3	2.0	1.4	2.2	2.4
IRHE	1.8	1.3	1.7	1.6	1.0	1.8	1.9
Other users	0.6	0.6	0.6	0.4	0.4	0.4	0.5
Kerosene	0.1	0.1	0.1	0.1	0.1	0.1	0.1
LP gas	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Other products	0.2	0.2	0.1	0.1	0.1	0.1	0.1

a/ Estimates.

Sources: IRHE, Ministry of Industry and Commerce and Comptroller General.

TABLE 8.10: CANAL TRAFFIC: TRANSITS, TOLLS AND CARGO, 1964-84
(1964 = 100)

	TRANSITS		TOLL REVENUES		CARGO TONNAGE		AVERAGE TOLL	
Fiscal Year	Thousands	Index	US$ Millions	Index	Millions of Long Tons	Index	US$ per Long Ton	Index
1964	12.9	100	62.5	100	72.2	100	0.87	100
1965	12.9	100	67.1	107	78.9	109	0.85	98
1966	13.3	103	72.6	116	85.3	118	0.85	98
1967	14.1	109	82.3	132	93.0	129	0.89	102
1968	15.5	120	93.2	149	105.5	146	0.88	101
1969	15.3	119	95.9	153	108.8	151	0.88	101
1970	15.5	120	100.9	161	118.9	165	0.85	98
1971	15.3	119	100.6	161	121.0	168	0.83	95
1972	15.2	118	101.5	162	111.1	154	0.91	105
1973	15.1	117	113.4	181	127.6	177	0.89	102
1974	15.3	119	121.3	194	149.8	208	0.81	93
1975	14.7	114	143.3	229	140.6	195	1.02	117
1976 [a]	13.2	102	135.0	216	117.4	163	1.15	132
1977	13.1	102	164.7	264	123.2	171	1.34	154
1978	13.8	107	195.7	313	142.8	198	1.37	158
1979	14.4	112	209.5	335	154.5	214	1.36	156
1980	14.7	114	293.4	469	167.6	232	1.75	201
1981	15.1	117	303.1	485	171.5	238	1.77	203
1982	15.3	119	325.6	521	185.7	257	1.75	201
1983	13.0	101	287.8	461	145.9	202	1.97	226
1984	12.4	96	285.0	456	138.5	192	2.06	237

[a] On October 1, 1976 the fiscal year of the U.S. Government changed from July 1 through June 30 to October 1 through September 30. The data for the "Transition Quarter" of July, August and September 1976 has been omitted.

Source: Panama Canal Commission.

TABLE 8.11: CANAL TRAFFIC: SHIPMENTS OF PRINCIPAL COMMODITIES, 1980-84

(Millions of Long Tons)

	Atlantic to Pacific					Pacific to Atlantic				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984[a]
Total	84.7	89.3	96.6	87.8	78.1	82.5	81.9	88.9	57.8	60.2
Agricultural	29.8	31.9	36.0	37.2	27.0	10.4	11.6	11.1	8.0	9.2
Canned and refrigerated foods	0.5	0.6	0.6	0.5	0.6	3.5	3.3	3.3	2.9	2.8
Grains	27.5	29.7	33.3	34.8	24.5	2.8	4.6	4.2	1.7	2.6
Other	1.7	1.6	2.0	1.9	1.9	4.0	3.7	3.5	3.4	3.8
Mining products	27.0	28.9	30.5	20.7	19.8	15.0	12.0	12.3	10.7	10.3
Minerals	0.3	0.2	0.2	0.2	0.2	3.5	3.4	3.9	3.0	3.5
Fertilizers	8.0	7.3	6.9	8.0	8.0	1.8	1.3	1.6	1.5	1.2
Ores and metals	4.0	2.8	2.2	3.4	3.6	7.6	5.8	5.7	4.6	4.4
Coke and coal	14.7	18.5	21.2	9.1	8.0	2.3	1.7	1.3	1.6	1.2
Petroleum products	12.0	11.4	13.7	13.7	13.2	35.4	38.0	45.3	20.2	18.3
Chemicals	3.7	3.8	3.9	4.1	4.5	0.5	0.7	1.0	0.8	1.2
Manufactures of iron and steel	1.8	2.3	1.9	1.6	1.8	5.6	4.9	5.2	3.6	5.5
Machinery and equipment	0.8	0.9	0.7	0.5	0.6	1.6	1.6	1.5	1.5	1.6
Lumber products	0.6	0.6	0.4	0.5	0.7	6.6	5.6	4.8	5.3	5.6
Miscellaneous	9.0	9.6	9.4	9.3	10.5	7.3	7.4	7.8	7.6	8.5

a/ Estimates.

Source: Panama Canal Commission.

Table 8.12: Construction: Private Sector Construction Permits in District of Panama City, 1975-83

(Thousand Square Meters)

	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total	175.8	172.1	131.9	205.5	411.5	400.9	396.5	574.4	323.2
Residential	94.0	101.2	99.1	131.6	203.2	208.2	259.6	304.4	175.3
Commercial	56.9	42.1	23.2	45.5	161.6	136.6	90.3	226.3	128.5
Industrial	3.5	17.9	7.5	26.9	40.4	21.9	9.1	19.6	8.1
Other	21.4	10.9	2.1	1.5	6.3	34.2	37.5	24.1	11.3

Source: Comptroller General.

IX.

PRICES

Table 9.1: AVERAGE MONTHLY SALARY BY EMPLOYER, 1970-83
(Number of Employees, Average Monthly Salary in Balboas)

YEAR	TOTAL		PRIVATE COMPANIES[a]		BANANA ZONES[b]		CENTRAL GOVERNMENT		PUBLIC AUTONOMOUS ENTITIES[c]		CANAL ZONE	
	Employees	Salary	Employees	Salary	Employees	Salary	Employees	Salary	Employees	Salary	Employees	Salary
1970	172,100	198.02	86,437	183.30	15,738	144.31	41,380	177.14	14,178	204.22	14,367	399.47
1971	190,647	202.03	102,330	187.99	14,868	140.36	43,932	185.22	16,819	221.20	12,698	420.12
1972	201,249	204.23	107,283	182.85	12,272	149.90	48,317	185.62	19,418	229.82	13,959	444.97
1973	213,127	212.89	114,171	191.52	11,129	156.28	49,250	195.72	24,543	227.46	14,034	466.45
1974	226,600	250.13	119,639	231.88	10,168	202.47	53,317	231.16	28,843	251.80	14,633	498.20
1975	231,281	264.15	117,344	241.34	11,176	187.99	54,823	239.33	33,491	263.90	14,447	590.50
1976	229,240	277.34	124,747	262.83	11,966	197.75	55,811	242.31	31,966	276.63	12,618	607.75
1977	227,258	293.52	118,995	280.61	12,849	207.77	58,680	247.25	32,309	288.38	13,028	661.40
1978	215,265	312.19	99,628	288.16	14,321	223.53	61,253	251.98	35,961	302.02	14,278	788.39
1979	268,268	331.82	144,037	306.53	14,459	257.06	63,714	290.15	41,648	316.96	14,834	821.65
1980	296,503	369.02	166,986	336.69	14,295	335.10	63,909	317.25	46,378	349.03	14,919	1,036.22
1981	339,842	384.64	199,929	356.41	14,694	361.15	69,122	327.32	51,305	372.20	14,902	1,057.24
1982	374,212	408.40	226,907	373.00	14,140	340.03	73,056	330.70	54,937	406.19	14,775	1,271.70
1983	n.a.	n.a.	n.a.	392.30	n.a.	360.40	n.a.	367.00	n.a.	n.a.	n.a.	1,322.60

a/ From Social Security reports. As Social Security coverage was extended from 8 urban centers in 1958 to virtually all towns and cities by 1971, the average salary became more a national sample than a Colon/Panama City sample. Excludes banana company.
b/ Since 1966 includes wages of independent producers.
c/ Includes municipalities.

Sources: Comptroller General.

Table 9.2: NUMBER OF PUBLIC AND PRIVATE SECTOR EMPLOYEES BY MONTHLY SALARY, 1970-82

BALBOAS PER MONTH	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
TOTAL	157,733	177,949	187,290	199,093	212,006	216,834	216,622	214,230	200,987	253,434	276,830	301,564	319,572
Less than 75.00	15,901	17,290	19,174	19,547	12,303	11,930	10,934	10,599	9,258	10,865	8,892	10,662	10,735
75.00 - 99.99	18,081	20,455	18,392	19,348	12,473	9,767	8,376	7,107	5,792	6,067	5,413	5,661	5,807
100.00 - 149.99	55,157	55,276	60,296	58,579	47,327	46,814	43,606	39,274	33,549	25,359	21,584	22,755	23,090
150.00 - 199.99	30,542	38,183	40,120	42,747	52,760	50,703	48,602	48,244	43,922	53,682	48,213	44,590	46,530
200.00 - 299.99	19,859	24,338	24,964	30,377	46,359	51,501	54,428	55,404	55,651	81,200	91,684	95,514	95,734
300.00 - 499.99	11,627	14,391	15,699	18,275	26,105	28,996	30,940	32,407	32,422	46,322	61,377	74,407	80,298
More than 500.00	6,566	7,956	8,645	10,220	14,679	17,123	19,736	21,195	20,393	29,939	36,667	47,975	57,378

Source: Comptroller General.

Table 9.3: NUMBER OF PRIVATE SECTOR EMPLOYEES BY MONTHLY SALARY, 1970-82

BALBOAS PER MONTH	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total Private Sector	102,175	117,198	119,555	125,300	129,846	128,520	124,747	118,995	99,628	144,037	162,232	176,553	187,042
Less than 75.00	13,308	14,678	16,942	16,828	18,891	10,592	9,792	9,337	8,449	9,887	8,166	9,816	9,936
75.00 - 99.99	12,569	13,034	13,917	14,467	9,880	8,321	7,094	6,370	4,749	5,115	4,781	5,107	5,072
100.00 - 149.99	35,687	40,594	40,314	39,628	32,156	29,810	26,319	23,315	17,337	20,353	17,046	17,111	18,549
150.00 - 199.99	17,203	20,551	20,048	21,251	28,289	28,544	26,456	24,305	19,932	30,209	29,941	25,715	26,588
200.00 - 299.99	12,077	14,747	14,096	16,397	24,113	24,929	25,200	24,754	22,319	36,160	45,231	51,250	50,342
300.00 - 499.99	6,811	8,065	8,460	9,887	14,680	15,527	16,754	17,250	15,488	23,875	32,522	38,294	41,600
500.00 and Over	4,520	5,529	5,778	6,842	9,837	10,797	13,132	13,664	11,354	18,438	24,545	29,260	34,955
Private Companies	86,437	102,330	107,283	114,171	119,678	117,344	112,781	106,146	85,307 a/	129,578	147,937	161,859	172,902
Less than 75.00	12,467	14,329	16,715	16,625	10,818	10,506	9,689	8,512	7,635	9,019	7,473	8,939	9,449
75.00 - 99.99	9,793	10,330	12,552	13,573	9,669	8,109	7,013	5,634	4,110	4,513	4,508	4,363	4,692
100.00 - 149.99	27,890	32,328	33,536	33,762	29,662	26,163	22,765	19,025	12,744	17,420	15,896	15,079	17,436
150.00 - 199.99	14,838	18,438	17,361	18,605	24,307	23,984	21,749	20,429	15,403	25,640	27,560	23,214	24,457
200.00 - 299.99	10,806	13,828	13,301	15,353	21,754	23,056	22,664	22,508	19,771	32,140	39,895	46,156	44,408
300.00 - 499.99	6,315	7,707	8,180	9,534	13,838	14,882	16,109	16,633	14,604	22,808	29,049	35,811	38,585
500.00 and Over	4,328	5,370	5,638	6,719	9,630	10,644	12,792	13,405	11,040	18,038	23,556	28,297	33,875
Banana Zones (Bocas del Toro, Puerto Armuelles)	15,738	14,868	12,272	11,129	10,168	11,176	11,966	12,849	14,321	14,459	14,295	16,694	14,140
Less than 75.00	841	349	227	203	73	86	103	825	814	868	693	877	487
75.00 - 99.99	2,776	2,704	1,365	894	211	212	81	736	639	602	273	744	380
100.00 - 149.99	7,797	8,266	6,778	5,866	2,494	3,647	3,554	4,290	4,593	2,933	1,150	2,032	1,113
150.00 - 199.99	2,365	2,113	2,687	2,646	3,982	4,560	4,707	3,876	4,529	4,569	2,381	2,501	2,131
200.00 - 299.99	1,271	919	795	1,044	2,359	1,873	2,536	2,246	2,548	4,020	5,336	5,094	5,934
300.00 - 499.99	496	358	280	353	842	645	645	617	884	1,067	3,473	2,483	3,015
500.00 and Over	192	159	140	123	207	153	340	259	314	400	989	963	1,080

a/ The marked fluctuation in 1978 compared to 1977 and 1979 is due principally to lack of registration with the Social Security Agency and closure of some businesses.

Source: Comptroller General.

Table 9.4: NUMBER OF PUBLIC SECTOR EMPLOYEES BY MONTHLY SALARY, 1970-82

BALBOAS PER MONTH	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total Public Sector	55,558	60,751	67,735	73,793	82,160	88,314	91,875	95,235	101,359	109,397	114,598	125,011	132,530
Less than 75.00	2,593	2,612	2,232	2,719	1,412	1,338	1,142	1,262	809	978	726	846	799
75.00 - 99.99	5,512	7,421	4,475	4,881	2,593	1,446	1,282	737	1,043	952	632	554	735
100.00 - 149.99	19,470	14,682	19,982	18,951	15,171	17,004	17,287	15,959	16,212	5,006	4,538	5,644	4,541
150.00 - 199.99	13,339	17,632	20,072	21,496	24,471	22,159	22,146	23,939	23,990	23,473	18,272	18,875	19,942
200.00 - 299.99	7,782	9,651	10,868	13,980	22,246	26,572	29,228	30,650	33,332	45,040	46,453	44,264	45,392
300.00 - 499.99	4,816	6,326	7,239	8,388	11,425	13,469	14,186	15,157	16,934	22,447	28,855	36,113	38,698
500.00 and Over	2,046	2,427	2,867	3,378	4,842	6,326	6,604	7,531	9,039	11,501	15,122	18,715	22,423
National Government	41,380	43,932	48,373	49,250	53,317	54,823	55,811	58,680	61,253	63,714	63,909	69,122	73,056
Less than 75.00	1,637	1,695	1,272	439	491	341	190	247	55	11	10	...	120
75.00 - 99.99	4,409	6,219	3,385	3,460	262	112	58	80	40	52	26	...	2
100.00 - 149.99	14,885	9,539	14,603	13,280	10,413	10,695	10,769	10,650	10,904	1,328	1,162	2,198	2,209
150.00 - 199.99	10,486	14,079	15,555	15,956	17,094	13,764	12,730	13,573	13,010	12,599	10,903	11,043	12,256
200.00 - 299.99	5,671	6,923	7,520	9,272	15,567	19,045	20,819	21,780	23,689	31,567	28,215	25,896	26,691
300.00 - 499.99	3,277	4,338	4,695	5,356	7,215	8,135	8,355	8,895	9,699	12,690	16,441	21,679	22,589
500.00 and Over	1,015	1,139	1,287	1,487	2,275	2,731	2,890	3,455	3,856	5,467	7,152	8,306	9,189
Autonomous and Semi-Autonomous Institutions	11,883	14,066	16,708	21,573	25,704	29,929	31,996	32,309	35,961	41,648	46,378	51,305	54,397
Less than 75.00	217	192	352	1,694	523	596	531	645	430	659	429	607	508
75.00 - 99.99	790	848	745	1,097	2,118	1,078	1,019	460	816	785	488	449	564
100.00 - 149.99	3,930	4,271	4,605	4,720	3,883	5,454	5,506	4,221	4,197	2,967	2,489	2,662	1,740
150.00 - 199.99	2,590	3,191	4,053	5,007	6,634	7,415	8,259	9,133	9,698	9,564	6,595	6,802	6,473
200.00 - 299.99	1,903	2,447	3,043	4,364	6,099	6,873	7,613	8,001	8,398	12,366	16,642	16,689	17,098
300.00 - 499.99	1,453	1,880	2,387	2,860	3,965	5,025	5,474	5,906	6,880	9,385	11,905	13,833	15,490
500.00 and Over	1,000	1,237	1,523	1,831	2,482	3,488	3,594	3,943	5,042	5,922	7,830	10,263	13,064
Municipalities	2,295	2,753	2,710	2,970	3,139	3,562	4,068	4,246	4,145	4,035	4,311	4,584	4,537
Less than 75.00	739	725	608	586	398	401	421	370	324	308	287	239	171
75.00 - 99.99	313	354	345	324	213	256	205	197	187	115	118	105	169
100.00 - 149.99	655	872	774	951	875	855	1,012	1,088	1,111	711	887	784	592
150.00 - 199.99	263	362	464	533	743	980	1,157	1,233	1,282	1,310	774	1,030	1,213
200.00 - 299.99	208	281	305	344	580	654	796	869	745	1,107	1,596	1,679	1,603
300.00 - 499.99	86	108	157	172	245	309	357	356	355	372	509	601	619
500.00 and Over	31	51	57	60	85	107	120	133	141	112	140	146	170

Source: Comptroller General.

Table 9.5: CONSUMER PRICES OF SELECTED ITEMS SUBJECT TO PRICE CONTROL, 1977-83

(Balboas per unit)

	1977	1978	1979	1980	1981	1982	1983
Rice (1 lb.)	0.23	0.22	0.22	0.32	0.32	0.32	0.32
Sugar (1 lb.)	0.20	0.20	0.20	0.24	0.24	0.31	0.31
Coffee (1 lb.)	0.90	0.90	1.36	1.36	1.36	1.36	1.36
Onions (1 lb.)	0.18	0.18	0.18	0.23	0.23	0.23	0.26
Potatoes (1 lb.)	0.19	0.19	0.23	0.25	0.25	0.25	0.50
Eggs (each)	0.09	0.09	0.09	0.11	0.11	0.11	0.11
Milk (1/2 gal.)	0.73	0.73	0.73	0.85	0.92	0.92	1.06
Beef (1 lb.)	1.25	1.25	1.55	1.55	1.55	1.55	1.55
Bread (18 oz.)	0.34	0.34	0.34	0.42	0.44	0.44	0.44
Flour (2 lbs.)	0.45	0.45	0.45	0.59	0.60	0.60	0.60
Cooking oil (1 gallon)	3.85	3.85	5.04	5.54	5.54	5.54	5.54
Cement (94 lbs.)	3.01	3.03	3.68	4.53 a/	5.12 a/	5.12 a/	5.12 a/
Chicken (1 lb.)	0.79	0.79	0.79	0.94	0.98	0.98	0.98

a/ Includes 5 percent value-added tax.

Source: Price Regulation Board (ORP).

Table 9.6: WAGES: REAL AND NOMINAL INCREASES BY SECTOR, 1974-82
(Percent Per Annum)

Year	Total Employees		Public Sector		Private Sector		Canal Area	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
1974	17.5	0.3	15.6	-1.3	21.9	4.1	6.8	-9.7
1975	5.6	0.0	4.3	-1.3	5.1	-0.6	18.5	12.2
1976	5.0	2.4	1.3	-1.3	8.9	6.3	2.9	0.4
1977	5.8	1.2	2.7	-1.8	6.8	2.1	8.8	4.1
1978	6.4	2.1	3.3	-0.9	2.7	-1.4	19.2	14.4
1979	6.3	-1.6	11.2	3.0	6.4	-1.6	4.2	-3.6
1980	11.2	-2.3	9.9	-3.7	9.9	-3.6	26.1	10.8
1981	4.2	-3.0	4.9	-2.3	5.9	-1.4	2.0	-5.1
1982	6.2	1.8	4.6	0.4	5.1	0.9	20.3	15.4
1973-82 Annual Average	7.5	0.1	6.3	-1.0	7.9	0.5	11.8	4.1

Source: Comptroller General and World Bank estimates.

Table 9.7: AVERAGE REAL WAGES, 1973-82

(Constant 1980 Balboas Per Month)

Year	Total	Private Sector	Public Sector [a/]	Canal Area
1973	361.4	320.1	350.5	792.2
1974	362.5	333.2	345.9	722.5
1975	362.5	331.3	341.4	810.4
1976	371.2	352.1	337.2	813.6
1977	375.5	359.4	331.2	846.9
1978	383.5	354.3	328.4	968.9
1979	377.3	348.9	338.2	935.6
1980	369.0	336.7	326.3	1,036.2
1981	358.2	332.2	318.9	985.5
1982	364.7	335.1	320.3	1,136.8

a/ Excluding Canal Area.

Source: Comptroller General.

Table 9.8: LABOR PRODUCTIVITY, REAL WAGES AND PRODUCTIVITY IN MANUFACTURING INDUSTRY, 1968-1979

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
						Index 1967 = 100						
Real output of manufacturing industry a/	109.7	122.9	127.9	136.0	142.3	151.2	153.2	147.7	151.4	153.2	155.6	173.7
Real wage bill b/	119.2	129.0	150.2	171.8	185.3	197.3	186.7	191.1	193.2	196.9	199.9	207.8
Employment	107.8	116.2	125.3	138.8	142.1	150.7	147.1	146.9	144.3	147.5	149.3	165.4
Real wage per employee	110.6	111.0	120.1	123.8	130.4	130.9	126.9	130.1	133.9	133.5	133.9	125.6
Output per employee	101.8	105.8	102.1	98.0	100.1	100.3	104.2	100.5	104.9	103.9	104.2	105.2
Unit labor cost	108.7	105.0	117.4	126.3	130.2	130.5	121.9	129.4	127.6	128.5	128.5	119.6
						Percentage Change from Previous Year						
Real output of manufacturing industry a/	9.7	12.0	4.1	6.3	4.6	6.3	1.3	-3.6	2.5	1.2	1.6	11.6
Real wage bill b/	19.2	8.2	16.4	14.4	7.9	6.5	-5.4	2.4	1.1	1.9	1.5	4.0
Employment	7.8	7.8	7.8	10.8	2.4	6.1	-2.4	-0.1	-1.8	2.2	1.2	10.8
Real wage per employee	10.6	0.4	8.2	3.1	5.3	0.4	-3.1	2.5	2.9	-0.3	0.3	-6.2
Output per employee	1.8	3.9	-3.5	-4.0	2.1	0.2	3.9	-3.6	4.4	-1.0	0.3	1.0
Unit labor cost	8.7	-3.4	11.8	7.6	3.1	0.2	-6.6	6.2	-1.4	0.7	0.0	-6.9

a/ Real output was derived from national accounts data. Data on wages, salaries, and employment were derived from a survey of industrial firms in the Panama City and Colon areas and from household surveys.

b/ Deflated by the Consumer Price Index.

Source: Comptroller General

Table 9.9: AVERAGE MONTHLY WAGES AND NOMINAL AND REAL WAGE INDICES BY SECTOR, 1973-1982

(Wages in Balboas per Month, Indices 1973=100)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total Employees' Wages	212.9	250.1	264.2	277.3	293.5	312.2	331.8	369.0	384.6	408.4
Nominal Wage Index	100.0	117.5	124.1	130.3	137.9	146.6	155.9	173.3	180.7	191.8
Real Wage Index a/	100.0	100.3	100.3	102.7	103.9	106.1	104.4	102.1	99.1	100.9
Public Sector Employees' Wages b/										
(i) Total Wages	206.3	238.4	248.6	251.7	258.6	267.2	297.0	326.3	342.2	358.0
Nominal Wage Index	100.0	115.6	120.5	122.0	125.4	129.5	144.0	158.2	165.9	173.5
Real Wage Index	100.0	98.7	97.4	96.2	94.5	93.7	96.5	93.1	91.0	91.4
(ii) Central Government's Wages	195.7	231.2	239.3	242.3	247.3	252.0	290.2	317.3	327.3	330.7
Nominal Wage Index	100.0	118.4	122.3	123.8	126.4	128.8	148.3	162.1	167.3	169.0
Real Wage Index	100.0	100.9	98.8	97.6	95.3	93.2	99.4	95.4	91.8	89.0
(iii) Autonomous Agencies' Wages	238.6	260.8	273.6	276.6	288.4	302.0	317.0	349.0	373.2	406.2
Nominal Wage Index	100.0	109.3	114.7	115.9	120.9	126.6	132.9	146.3	156.4	170.2
Real Wage Index	100.0	93.3	92.7	91.4	91.1	91.6	89.0	86.1	85.8	89.6
(iv) Municipalities' Wages	146.5	179.1	182.4	183.9	187.8	189.5	200.1	215.6	219.9	223.5
Nominal Wage Index	100.0	122.3	124.5	125.5	128.2	129.4	136.6	147.2	150.1	152.6
Real Wage Index	100.0	104.4	100.6	99.0	96.6	93.6	91.5	86.6	82.4	80.3
Private Sector Employees										
(i) Total Wages	188.4	229.6	241.3	262.8	280.6	288.2	306.5	336.7	356.4	374.7
Nominal Wage Index	100.0	121.9	128.1	139.5	148.9	153.0	162.7	178.7	189.2	198.9
Real Wage Index	100.0	104.1	103.5	110.0	112.3	110.7	109.0	105.2	103.8	104.7
(ii) Banana Plantations' Wages	156.3	202.5	188.0	197.8	207.8	223.5	257.1	335.1	361.2	340.0
Nominal Wage Index	100.0	129.6	120.3	126.6	133.0	143.0	164.5	214.4	231.1	217.5
Real Wage Index	100.0	110.6	97.2	99.8	100.2	103.5	110.2	126.2	126.8	114.5
(iii) Rest of Private Sector Wages	191.5	231.9	246.3	269.7	285.6	294.0	309.3	336.8	356.3	376.2
Nominal Wage Index	100.0	121.1	128.6	140.8	149.1	153.5	161.5	175.9	186.1	196.5
Real Wage Index	100.0	103.4	103.9	111.0	112.4	111.1	108.2	103.5	102.1	103.4
Canal Area Employees' Wages	466.4	498.2	590.5	607.8	661.4	788.4	821.7	1,036.2	1,057.2	1,271.7
Nominal Wage Index	100.0	106.8	126.6	130.3	141.8	169.0	176.2	222.2	226.7	272.7
Real Wage Index	100.0	91.2	102.3	102.7	106.9	122.3	118.1	130.8	124.4	143.5

a/ All Real Wage Indices are found by deflating the Consumer Price Index (1973=100).

b/ Excluding Canal Area.

Source: Comptroller General and World Bank estimates.

Table 9.10: COST OF LIVING INDEX, 1976-83

(1975 = 100)

	Panama City (low- and middle-income)				
	Total	Food	Housing	Clothing	Miscellaneous
Weights (per cent)	100.0	39.4	23.0	9.3	28.3
			(Period average)		
1976	102.5	100.9	104.0	102.6	103.0
1977	107.2	103.9	112.1	128.8	107.1
1978	111.7	110.3	119.5	111.2	108.1
1979	120.6	120.4	123.2	116.1	120.1
1980	137.3	135.7	133.5	128.7	143.6
1981	147.3	148.1	139.7	135.6	154.5
1982	153.5	156.9	146.7	142.4	157.8
1983	158.8	162.3	153.0	146.0	162.5
			(End of period)		
1976	103.3	102.4	104.9	103.0	103.3
1977	108.3	105.1	113.9	108.8	107.5
1978	113.7	114.7	121.4	112.7	108.5
1979					
March	116.8	116.6	121.5	113.8	114.9
June	121.7	121.8	122.9	116.7	121.9
September	123.4	122.8	124.8	115.8	125.0
December	125.0	123.7	126.2	120.6	126.6
1980					
March	134.4	130.9	131.9	123.7	142.2
June	137.8	136.3	134.6	130.8	143.2
September	140.5	138.6	136.1	131.4	147.7
December	143.1	142.9	137.2	132.8	150.0
1981					
March	145.7	144.7	138.9	134.7	154.1
June	147.0	148.5	138.3	135.1	154.2
September	148.4	150.4	141.0	136.0	154.5
December	150.0	152.2	142.4	138.9	155.9
1982					
March	152.0	154.7	144.7	141.4	156.9
June	153.6	156.1	147.6	142.9	158.1
September	155.1	159.2	148.7	143.1	158.5
December	155.5	159.6	149.3	143.3	158.8
1983					
March	158.2	161.2	152.4	146.0	162.2
June	157.7	161.0	152.4	145.5	161.1
September	160.2	164.1	154.3	146.3	163.8
December	159.0	162.8	153.1	146.2	162.7

Source: Comptroller General.

Table 9.11: COST OF LIVING INDEX: ANNUAL PERCENT CHANGE, 1979-83

(Percent)

	Total	Food	Housing	Clothing	Miscellaneous
		(Period average)			
1979	8.0	9.2	3.1	4.4	11.1
1980	13.8	12.2	8.4	10.9	19.6
1981	7.3	9.6	4.6	5.4	7.6
1982	4.2	5.9	5.0	5.0	2.1
1983	3.6	3.7	4.4	2.7	3.1
		(End of period)			
1979	9.9	7.8	4.0	7.0	16.7
1980	14.5	15.5	8.7	10.1	18.5
1981	4.8	6.5	3.8	4.6	3.9
1982	3.7	4.9	4.8	3.2	1.9
1983	2.3	2.0	2.5	2.0	2.5
1984					
January	1.9	1.4	2.4	1.2	2.2
February	2.0	1.8	2.4	1.2	2.2
March	1.8	1.6	2.4	1.4	1.7
April	2.0	1.4	3.0	1.2	2.0
May	1.6	1.3	1.9	1.2	1.7

Source: Comptroller General.

Table 9.12: WHOLESALE PRICE INDEX, 1976-84

(1975 = 100)

	Total	Imports	Industrial	Agricultural
Weights (per cent)	100.0	37.5	46.4	16.1
(Period average)				
1976	107.8	105.8	105.9	106.4
1977	115.5	115.7	116.7	111.2
1978	121.8	122.0	121.8	121.1
1979	138.8	130.9	145.2	138.8
1980	160.2	148.1	171.3	156.9
1981	176.2	168.2	185.9	166.6
1982	190.8	177.9	203.8	183.0
1983	198.2	186.6	208.8	194.6
(End of period)				
1976	107.8	106.5	108.9	108.2
1977	117.6	118.6	117.8	114.9
1978	125.8	124.9	126.9	124.5
1979				
March	128.7	125.6	130.5	130.5
June	138.8	129.6	145.4	141.6
September	142.4	132.3	151.8	138.8
December	145.6	136.4	153.3	144.4
1980				
March	153.7	141.1	166.0	147.6
June	158.3	148.2	168.4	152.9
September	162.9	150.9	175.2	155.7
December	165.7	152.2	175.7	167.8
1981				
March	172.7	164.3	182.1	164.9
June	174.7	167.1	184.2	165.5
September	177.0	169.4	186.7	167.1
December	180.2	172.4	190.4	169.1
1982				
March	185.2	175.7	195.8	176.9
June	192.0	178.4	206.1	183.2
September	192.1	178.2	205.9	184.7
December	193.6	179.6	207.1	187.1
1983				
March	195.9	181.2	211.3	185.6
June	198.8	186.4	209.6	196.4
September	199.0	187.8	208.6	197.3
December	199.1	190.8	205.7	199.0
1984				
March	194.8	188.7	198.0	199.3

Source: Comptroller General.

Table 9.13: WHOLESALE PRICE INDEX: ANNUAL PERCENT CHANGE, 1979-84

(Percent)

	Total	Imports	Industrial	Agricultural
		(Period average)		
1979	14.0	7.3	19.2	14.6
1980	15.4	13.1	18.0	13.0
1981	10.0	13.6	8.5	6.2
1982	8.3	5.8	9.6	9.8
1983				
		(End of period)		
1979	15.7	9.2	20.8	16.0
1980	13.8	11.6	14.6	16.2
1981	8.8	13.3	8.4	0.8
1982	7.4	4.2	8.8	10.6
1983				
March	5.8	3.1	7.9	4.9
June	3.5	4.5	1.7	7.2
September	3.6	5.4	1.3	6.8
December	2.8	6.2	-0.7	6.4
1984				
March	-0.6	4.1	-6.3	7.4

Source: Comptroller General.

Table 9.14: SELECTED PRICE INDICES, 1979-83

	1979	1980	1981	1982	1983[a]
Period Averages					
1975 = 100					
Wholesale prices	138.8	160.2	176.2	190.8	198.2
Cost of living	120.6	137.3	147.3	153.5	159.0
GDP deflator	129.0	142.3	148.9	156.0	161.0
Percentage change over previous year					
Wholesale prices	14.0	15.4	10.0	8.3	3.9
Cost of living	8.0	13.8	7.3	4.2	3.6
GDP deflator	9.3	10.3	6.1	4.8	3.2
End of Period					
1975 = 100					
Wholesale prices	145.6	165.7	180.2	198.2	203.7
Cost of living	125.0	143.1	150.0	155.5	159.1
Percentage change over previous 12 months					
Wholesale prices	15.7	13.8	8.8	7.4	2.8
Cost of living	9.9	14.5	4.8	3.7	2.3

a/ Estimates.

Sources: Comptroller General and IMF.

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LC 76-47395. ISBN 0-8018-1939-3, Stock No. JH 1939, $28.50 hardcover; ISBN 0-8018-2099-5, Stock No. JH 2099, $12.95 paperback.

Kenya: Population and Development
Rashid Faruqee, chief of mission, and others

States that fertility in Kenya is high, appears to be increasing, and shows considerable variation by region, tribal group, and socioeconomic status. Recognizes that rapid population growth is resulting in the need for increased public expenditure for basic needs services, such as education, health, water, and housing. Argues that a rapid decline in fertility will facilitate the implementation of the government's commitment to the provision of basic needs, but that the satisfaction of basic needs, such as education, is an important instrument for securing lower fertility. Explores the socioeconomic determinants of fertility, the current status of the country's family planning program, the social status of women and fertility, and makes recommendations for a comprehensive population policy.

1980. 226 pages (including bibliography).
Stock No. BK 9134. $10.

Korea: Policy Issues for Long-Term Development

Parvez Hasan and D. C. Rao

Can Korea's growth rate continue with greater considerations of equity, structural changes to maintain the comparative advantages of Korean exports, the new roles for government in response to changing domestic and external conditions?

The Johns Hopkins University Press, 1979. 558 pages (including map, appendixes, index).

LC 78-21399. ISBN 0-8018-2228-9, Stock No. JH 2228, $35 hardcover; ISBN 0-8018-2229-7, Stock No. JH 2229, $15 paperback.

Madagascar: Recent Economic Development and Future Prospects

P.C. Joshi, mission chief, and others

Examines, in the light of recent economic developments and the government's objectives, the strategy underlying both the 1978-80 Development Plan and those plans to be implemented subsequently. Points out that the overall performance of the economy has been disappointing in recent years, but that the government has been able to focus on certain important social objectives; the satisfaction of basic needs, reduction of urban-rural income disparities, and the protection of living standards of low-income urban groups. Proposes a policy framework characterized by increased reliance on external assistance, vigorous export promotion, and a general relaxation of economic controls, and considers the feasibility and appropriateness of this strategy in relation to the resources of the economy and long-term development goals of the country.

1980. 307 pages (including 6 annexes, 4 appendixes). English and French.

Stock Nos. BK 9157 (English) and BK 9164 (French). $15.

Malaysia: Growth and Equity in a Multiracial Society

Kevin Young, Willem Bussink, and Parvez Hasan

Rapid growth is essential to achieving Malaysia's economic and social objectives; favorable resource prospects are conducive to such growth.

The Johns Hopkins University Press, 1980. 364 pages (including appendixes, index).

LC 79-3677. ISBN 0-8018-2384-6, Stock No. JH 2384, $25 hardcover; ISBN 0-8018-2385-4, Stock No. JH 2385, $12.95 paperback.

The Maldives: An Introductory Economic Report

K. Sarwar Lateef, chief of mission, and others

Provides a brief introduction to the Maldives, a nation that is among the twenty poorest countries in the world, and points out that the fisheries sector accounts for 44 percent of employment and nearly all visible export earnings and discusses other important sectors—agriculture, tourism, cottage industries, health, and education. Outlines the development priorities for the country in the 1980s and the role of external assistance.

1980. 178 pages (including 5 annexes, statistical appendix).

Stock No. BK 9139. $5.

Mauritius. Economic Memorandum: Recent Developments and Prospects

Michel J. C. Devaux, mission chief, and others

Report of a November-December 1981 mission to review the economic situation of Mauritius and to assess progress under the structural adjustment loan approved by the World Bank in 1981.

1983. 122 pages.

ISBN 0-8213-0122-5. Stock No. BK 0122. $5.

Morocco: Economic and Social Development Report

Christian Merat, coordinating author, and others

This study examines the growth and structural changes the Moroccan economy has experienced during the ten-year period, 1968-77. It seeks to determine the results that can be expected from the annual plans of financial adjustment that dominate the period 1978-80 and looks ahead to the overall prospects for the economy during the period 1981-90. Considers growth problems at the sector level and outlines the general employment situation and the social development strategy the country is pursuing.

1981. 454 pages (including statistical appendix). English and French.

Stock Nos. BK 9165 (English) and BK 9166 (French). $20.

Nepal: Development Performance and Prospects

Yukon Huang, chief of mission, and others

Reviews Nepal's achievements during the Fifth Development Plan and its strategy options for the Sixth Plan for key sectors such as agriculture, industry, tourism, energy, and transportation, as well as human resource development.

1979. 134 pages (including map, 2 annexes, statistical appendix).

Stock No. BK 9123. $5.

Papua New Guinea: Its Economic Situation and Prospects for Development

George B. Baldwin and others

Assesses prospects for increasing economic self-reliance and financial creditworthiness by developing considerable natural resources.

The Johns Hopkins University Press, 1978. 38 pages (including appendixes, statistical appendix, bibliography).

LC 77-17242. ISBN 0-8018-2091-X, Stock No. JH 2091, $6.50 paperback.

Papua New Guinea: Selected Development Issues

Alice Galenson, chief of mission, and others

This report constitutes part of a continuing dialogue between the World Bank and the government of Papua New Guinea on a wide range of economic and sector issues. It focuses on a few specific areas that were agreed to be among the most important for the country's development during the 1980s. Points out that the major goal facing the country in the 1980s will be to provide rising incomes for its people and productive livelihood for its growing labor force. Discusses, in particular, the employment, agriculture, forestry, fisheries, and industry sectors.

280 pages (including 4 annexes).

Stock No. BK 0096. $10.

Paraguay: Regional Development in Eastern Paraguay

Alfredo Gutierrez, chief of mission, and others

Reviews recent economic developments and provides a framework for policy actions and investment projects designed to make maximum use of development possibilities, and suggests the need to coordinate public-sector activities in a geographic and sectoral dimension to exploit the eastern region's natural resources.

1978. 58 pages (including maps, statistical appendix). English.

Stock No. BK 9103 (English) and BK 9152 (Spanish). $3.

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The Philippines: Housing Finance

Madhusudan Joshi, mission chief, and others

Reports the findings of a 1981 study requested by the government of the Philippines focusing on resource mobilization and its macroeconomic implications, the development of appropriate institutions and instruments, and access to housing finance.

1983. 137 pages (including appendices).

ISBN 0-8213-0108-X. Stock No. BK 0108. $5.

Philippines: Industrial Development Strategy and Policies

Barend A. de Vries, chief of mission, and others

Outlines the country's industrial development strategy, its major objectives, and industrial investment priorities and determines that the nontraditional manufactured export drive should continue with increased participation by industries, firms, and regions and that policies for the home industries should be reoriented toward better use of capital and domestic resources and more employment creation.

1980. 310 pages (including statistical appendix, 9 annexes).

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Portugal: Agricultural Sector Survey

Jacques Kozub, chief of mission, and others

Analyzes the main issues of agricultural development and identifies investor needs for future World Bank consideration.

1978. 328 pages (including 2 appendixes, 10 annexes, maps).

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Portugal: Current and Prospective Economic Trends

Basil Kavalsky, chief of mission, and Surendra Agarwal

Discusses Portugal's difficult transition after the revolution of 1974/75 and notes that the country has a sound economic base, but will have to come to terms with the serious unemployment problem, increase investment and output in export-oriented manufacturing, and improve agricultural productivity.

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Romania: The Industrialization of an Agrarian Economy under Socialist Planning

Andreas C. Tsantis and Roy Pepper

The first comprehensive study of the Romanian economy, the study contains a data base of the economy and describes the planning and management system.

The Johns Hopkins University Press, 1979. 742 pages (including maps, appendixes, bibliography).

LC 79-84315. ISBN 0-8018-2269-6, Stock No. JH 2269, $35 hardcover; ISBN 0-8018-2262-9, Stock No. JH 2262, $15 paperback.

Seychelles: Economic Memorandum

Robert Maubouche and Naimeh Hadjitarkhani

Traces the development of Seychelles' economy from its primary dependence on the export of copra and cinnamon to service economy with tourism as its major industry. Concludes that the country's management capability is impressive and its development strategy well designed, but that it is likely to be confronted with financial constraints in the near future, and its investment program will require increased domestic efforts, as well as substantial levels of external capital aid.

1980. 73 pages (including statistical appendix).

Stock No. BK 9133. $3.

Thailand: Income Growth and Poverty Alleviation

John Shilling, chief of mission, and others

Synthesizes the results of four special studies on poverty-related issues and discusses some of the determinants of poverty, the impact of socioeconomic and political factors on the poor, and the relationship between basic needs and poverty. Formulates guidelines for policies aimed at alleviating poverty and promoting equitable growth. Companion paper to *Thailand: Toward a Development Strategy of Full Participation*, March 1980.

1980. 64 pages (including 2 annexes, maps).

Stock No. BK 9135. $3.

Thailand: Industrial Development Strategy in Thailand

Bela Balassa, chief of mission, and others

Notes that the country had an outstanding economic record during the postwar period, especially between 1960 and 1973, but points out that there is a slowdown in the growth of Thai exports that will have a negative effect on the economy. Examines the prospects for future exports of processed food and manufactured goods and analyzes the country's comparative advantage in these products. Considers the need for the economic evaluation of large government-sponsored projects; examines measures of import protection and export promotion schemes and questions relating to regional development. Provides recommendations for a coherent industrial development strategy for the country that is aimed at increasing industrial employment, expanding small and medium-sized firms, and improving the living standards of the poor.

1980. 69 pages.
Stock No. BK 9155. $3.

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Thailand: Rural Growth and Employment

Examines the high rate of economic growth in Thailand with respect to agricultural growth. Concludes that agricultural growth has a great effect on rural development. Supports development of programs to alleviate the pockets of rural poverty. Discusses supply-side factors in rural nonfarm activities and the effect of industrial policies on provincial manufacturing.

1983. 212 pages (including appendixes).
ISBN 0-8213-0203-5. Stock No. BK 0203. $10.

Thailand: Toward a Development Strategy of Full Participation

E.R. Lim, chief of mission, John Shilling, deputy chief, and others

Shows that rapid and sustained growth has helped a substantial proportion of the population, but that, to a large extent, the rural population has not benefited. Stresses that the country should not follow a type of "trickle down" development strategy, but should focus on raising the productivity and incomes of the poorest farmers. This strategy would be a logical continuation of the economic change that began in the middle of the 19th century, with development based primarily on indigenous capital and skills and the gradual assimilation of foreign technology.

1980. 246 pages (including statistical appendix).

Stock No. BK 9125. $10.

Turkey: Industrialization and Trade Strategy

Bela Balassa, mission chief and principal author

Reports the findings of a special economic mission that visited Turkey in May-June 1981. Includes production incentives, financing of economic activity, taxation and investment incentives, industrial development and exports, state economic enterprises in manufacturing agriculture development and exports, and tourism. Concludes with policy recommendations.

1983. vi + 455 pages (including appendices and statistical tables)

ISBN 0-8213-0046-6. Stock No. BK 0046. $20.

Turkey: Policies and Prospects for Growth

Vinod Dubey, mission chief, Shakil Faruqi, deputy mission chief, and others

States that overall economic growth during the 1960s and most of the 1970s was good compared with other developing countries. Concludes, however, that the sharp increase in oil prices had an unfavorable impact on the country and that resumption of sustainable growth depends on the adoption of an export-oriented strategy; on policies aimed at increasing domestic savings and at keeping aggregate demand for resources in line with aggregate supply; and on the support for these policies by various donors and the financial community.

1980. 347 pages (including 6 appendixes, statistical annex).

Stock No. BK 9151. $15.

Uganda: Country Economic Memorandum

Mark Baird, mission leader, and others

This is the first economic report prepared by the World Bank on Uganda since 1969. It reviews events prior to the 1978-79 war and developments since the war, including the government's new financial program. Outlines the priority areas for further action and the implications of the balance-of-payments outlook for aid requirements. A more detailed review of the problems and issues in five major sectors—agriculture, industry, transport, energy, and education—is also discussed.

1982. 166 pages (including statistical appendix).

ISBN 0-8213-0027-X. Stock No. BK 0027. $5.

Yemen Arab Republic: Development of a Traditional Economy

Otto Maiss, chief of mission, and others

Outlines the far-reaching changes in the socioeconomic and political structure of the Yemen Arab Republic since the 1962 revolution and discusses major development issues of the late 1970s and the 1980s.

1979. 333 pages (including 3 maps, 7 annexes, statistical appendix, selected bibliography).

Stock No. BK 9109. $15.

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NEW

Yugoslavia: Adjustment Policies and Development Perspectives

Reviews Yugoslavia's adjustment during the strenuous economic period of 1976-80. Based on the findings of a World Bank economic mission to Yugoslavia in 1981, this report is especially useful to economists, country planners, and those interested in economic trends and institutional change.

The first section of the report deals with issues of adjustment strategy and policy across the economy. The second part explores issues in agriculture, industry, employment, and regional policy. Includes more than 100 tables of statistics from 1965 through estimates for 1985.

1983. 464 pages.
ISBN 0—8213-0189-6. Stock No. BK 0189. $20.

Yugoslavia: Self-Management Socialism and the Challenges of Development

Martin Schrenk, Cyrus Ardalan, and Nawal A. El Tatawy

Describes major development issues and the overall performance of the economy, showing that the new economic framework of the 1970s strengthens decisionmaking at the lowest microeconomic level and at the same time allows greater coordination of economic activity by extending self-management principles to the macroeconomic level.

The Johns Hopkins University Press, 1979. 410 pages (including map, appendix, glossary, index).

LC 79-84316. ISBN 0-8018-2263-7, Stock No. JH 2263, $27.50 hardcover; ISBN 0-8018-2278-5, Stock No. JH 2278, $12.95 paperback.

Zaire: Current Economic Situation and Constraints

Bension Varon, chief of mission, and others

Presents an integrated analysis of the difficulties experienced by the Zairian economy between 1975 and the first half of 1979 and suggests that the country needs to revamp its institutions and its system of incentives and adopt policies that will lay the foundation for a development pattern that will render it less vulnerable to changes in the world economy.

1980. 196 pages (including map, annex, statistical appendix). English and French.
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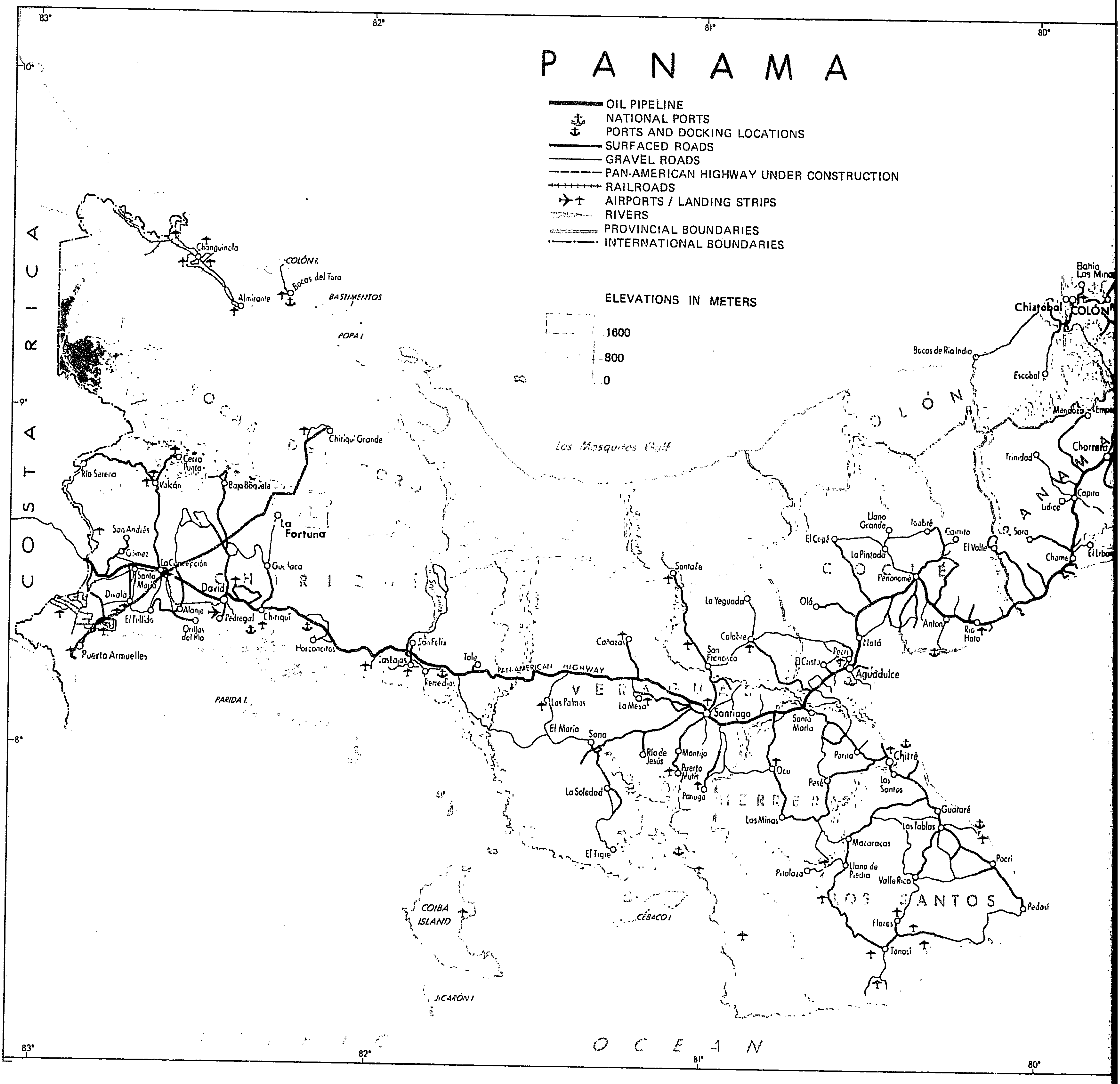
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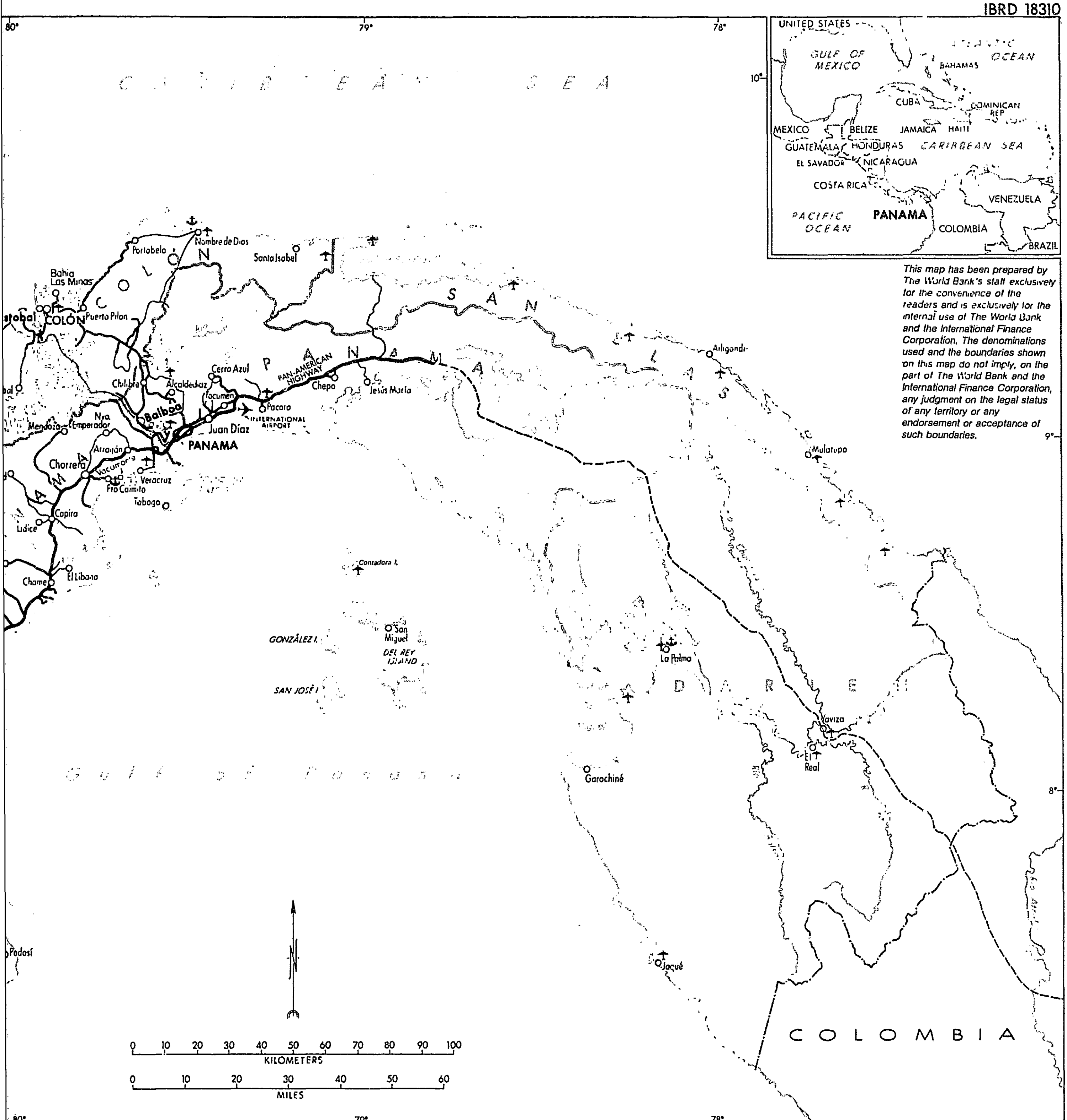

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