Country Report

Panama

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The Economist Intelligence Unit

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"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

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Briefing sheet

Editor: **Norman McKay**

Forecast Closing Date: **February 13, 2020**

Political and economic outlook

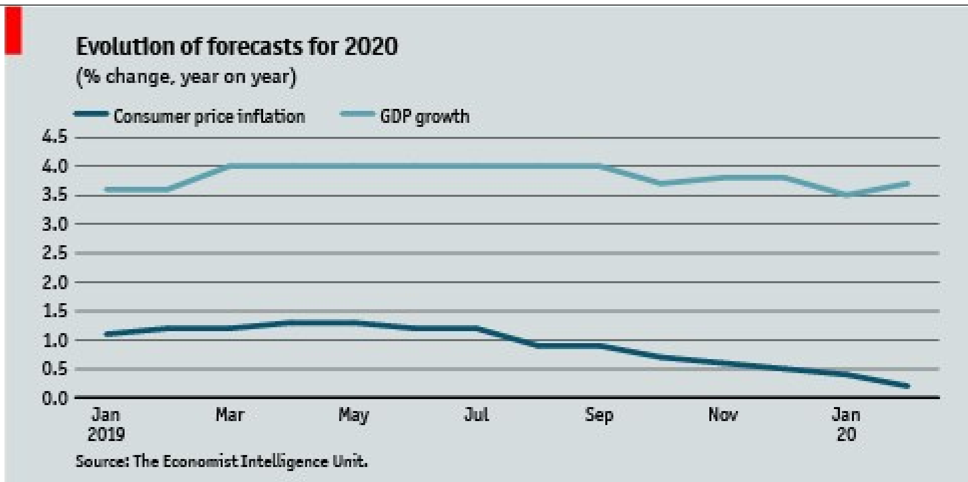
- The president, Laurentino Cortizo of the Partido Revolucionario Democrático (PRD), is in a strong governing position, owing to his alliance's majority in the National Assembly. The PRD and a legislative ally hold 35 and five seats (out of 71) respectively.
- Mr Cortizo's arms-length relationship with the legislature may undermine his position as tensions with PRD legislators simmer, but The Economist Intelligence Unit expects that he will garner sufficient backing to advance legislation to support economic growth.
- The government's economic strategy will remain focused on strengthening Panama's role as a global transport hub and promoting foreign direct investment (FDI) in the logistics and transport sectors, in addition to diversifying the economy.
- Mounting fiscal pressures will require prudent policy management. A commitment to fiscal sustainability and revenue from mining operations will support a narrowing deficit in 2020-23, before fiscal policy loosens ahead of the 2024 general election.
- We expect real GDP growth to reach 3.7% in 2020 (well below the 2010-18 average of 6.5%), before picking up to average 4% in 2021-24 as US economic activity strengthens and several large-scale infrastructure projects are realised.
- Inflation will edge up to an average of 1% per year in the 2020-24 forecast period as oil prices continue to recover. The current-account deficit will average 4.8% of GDP annually in 2020-24, but will be comfortably financed by strong and steady FDI inflows.

Key indicators

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth (%)	3.0	3.7	3.8	4.0	4.0	4.1
Consumer price inflation (av; %)	-0.4[c]	0.2	1.0	1.2	1.4	1.4
Government balance (% of GDP)	-3.1	-2.7	-2.5	-2.0	-2.0	-2.3
Current-account balance (% of GDP)	-5.7	-4.2	-4.0	-4.3	-5.6	-6.1
Money market rate (av; %)	2.1	1.4	1.5	1.7	2.1	2.2
Unemployment rate (%)	6.9	6.5	6.1	5.8	5.6	5.5
Exchange rate US$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Market opportunities



Key changes since January 3rd

- In 2019 the non-financial public-sector (NFPS) deficit was US$2.1bn (equivalent to an estimated 3.1% of GDP), narrower than we expected previously. As a result, we are now cautiously optimistic that the government will narrow the deficit to 2.75% of GDP in 2020.
- Considering the government's ability to realise spending controls that led to a narrower than expected NFPS deficit in 2019, we will consider the government more capable of meeting the NFPS deficit ceilings outlined in its fiscal responsibility law.
- We have reversed our assumption that growing Chinese tourism arrivals would support overall tourism arrivals. This change is based on a 27% year-on-year reduction in Chinese visitor arrivals to Tocumen airport in 2019 and the outbreak of the coronavirus in China.
- The coronavirus represents a downside risk to inflation (through a reduction in commodity prices) and growth (through weaker export volumes and reduced Chinese activity in Panama), but these effects have not yet been incorporated into our forecasts.
- As a result of changes to the constitutional reform process (which are prolonging the process's timeframe), there are growing risks to our expectation that Mr Cortizo's government will achieve constitutional reform in the forecast period.

The month ahead

- **March (TBC)—Potential announcement of new political party:** The former president, Ricardo Martinelli (2009-14), has signalled that he plans to formalise the creation of a new political party. If this happens, we expect it to cause a split in the largest opposition party, Cambio Democrático (CD) and aggravate existing political tensions.

Major risks to our forecast

Scenarios, Q1 2020	Probability	Impact	Intensity
Prolonged droughts stymie Panama Canal operations	High	High	16
The legislative alliance between the PRD and the Movimiento Liberal Republicano Nacionalista (Molirena) falls apart	Moderate	Very high	15
The government seeks to increase employers' social security contributions	High	Moderate	12
China's economy experiences a sharp decline	Moderate	High	12
Efforts to improve financial transparency are deemed insufficient by international organisations	Moderate	High	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2020-24

Political stability

The near-term political outlook will be shaped by the broad agenda of the president, Laurentino Cortizo of the centre-left Partido Revolucionario Democrático (PRD), who began his five-year term in July 2019. He will focus on delivering on his campaign pledges of tackling institutional weaknesses through constitutional reform and re-energising the economy. Mr Cortizo's administration will pursue these objectives from a strong position; the PRD has a legislative majority in the National Assembly in coalition with the Movimiento Liberal Republicano Nacionalista (Molirena), with 35 and five seats (out of 71) respectively, whereas the opposition is fragmented. The two largest opposition parties, Cambio Democrático (CD) and the Partido Panameñista (PP), both centre-right parties, have only 18 and eight seats respectively. CD cohesion is fragile, with differing support bases for leading party figures, including the party's founder, Ricardo Martinelli (Panama's president in 2009-14), who was acquitted of corruption and espionage charges in 2019, and the current party leader and 2019 CD presidential candidate, Rómulo Roux. Corruption allegations and intra- and inter-party tensions will also trouble the PP, with the former president, Juan Carlos Varela (2014-19) of the PP, embroiled in a scandal that led to the resignation of the attorney-general, Kenia Porcell, in late 2019.

Although nearly every project that the government has sent to the National Assembly has been approved—indicating a reasonable level of government effectiveness—tensions between the executive and PRD deputies will undermine political stability periodically. The president has kept an arms-length relationship with the legislature; the lack of a well-oiled relationship with his deputies in the legislature has presented difficulties for constitutional reform, and may well impede other parts of his agenda.

The government aims to pass an array of constitutional reforms, including amendments to strengthen the separation of state powers, increase the autonomy of the judiciary and improve public-sector transparency and accountability. There is robust consensus for these reforms, although differences relating to the process persist. The Economist Intelligence Unit expects that widespread support for reform, in addition to Mr Cortizo's legislative majority, will enable the government to guide reforms through the legislature and then through a referendum—Mr Cortizo has opted for these reforms to be ratified by two consecutive legislative sessions (with a simple majority) and then to be approved by a popular referendum. However, there are growing risks to our expectation that Mr Cortizo will achieve constitutional reform. Although the president still favours the original process, he has chosen to foment dialogue with the wider population with the aid of the United Nations Development Programme after legislators tacked on unpopular and controversial amendments. These changes made his initial two-year timeframe all but feasible; the original process will restart after a period of national consultation (which is due to last until mid-2021), indicating that a referendum may not be held until 2022 at the earliest.

Election watch

Looking ahead to the 2024 general election, there is no clear presidential front-runner as yet. Mr Cortizo will be unable to stand, as consecutive presidential re-election is prohibited. Furthermore, the results of the 2019 election indicate a shift in the political landscape; voters rejected many of the sitting deputies who ran for re-election, with about 30 new legislators entering the National Assembly. The legislative dynamics, and their bearing on the next election, are therefore unclear, especially given the surge in support for independent candidates. Nevertheless, the incumbent party has yet to win re-election since Panama's return to democracy in 1989, suggesting a close contest between the two main opposition parties, the PP and the CD. However, the PP is still unpopular following Mr Varela's presidency, and the CD is divided owing to an internal power struggle. However, the PRD may yet perform well at the polls if Mr Cortizo's administration can lift growth and avoid any major corruption scandals.

International relations

Mr Cortizo will continue Panama's multipronged foreign policy approach, which involves maintaining strong economic ties with the US (the country's largest trading partner) while cautiously developing its relations with China. Mr Cortizo has inherited—and is likely to eventually resume—negotiations on a free-trade agreement with China; the previous government officially recognised China in 2017, after cutting diplomatic ties with Taiwan. Panama's growing links with China relations may cause its relations with the US to fray. However, we expect Mr Cortizo to build upon Panama's close security co-operation with the US and avoid taking any confrontational stance on bilateral trade, given the importance of commercial ties with the US.

The president will increase co-operation with select EU countries on issues of financial transparency to improve external relations damaged by the Panama Papers scandal in 2016. This will support Panama's relationship with the EU, but progress will be slow, assuming that the country makes only moderate improvements in the implementation of international standards to combat tax evasion and money laundering. At the same time the country's efforts to join the Pacific Alliance (a regional trade bloc comprising Chile, Colombia, Mexico and Peru) will be hindered by an ongoing trade dispute with Colombia stemming from a 10% tariff on Panamanian clothing imports.

Democracy Index: Panama

The Economist Intelligence Unit's Democracy Index ranks Panama 46th out of 167 countries, with a score of 7.05. The country's score is unchanged from last year, and Panama remains one of about 50 countries considered "flawed democracies" along with its neighbours Peru, Ecuador and Colombia. Panama continues to score well compared with other Latin American and Caribbean countries; it is 6th regionally out of 24 countries. More than two decades have passed since the US overthrew the de facto military regime of General Manuel Noriega, a dictator, and democracy is firmly established; Panama's highest score is in the electoral process and pluralism category. Although there is little real threat to democratic rule in Panama, participation in frontline politics, particularly within the higher echelons of the legislature and executive, is restricted to a relatively small elite, weighing on the country's scores for political culture and political participation.

Democracy Index

	Regime type	Overall score	Overall rank
2019	Flawed democracy	7.05 out of 10	46 out of 167
2018	Flawed democracy	7.05 out of 10	45 out of 167
2017	Flawed democracy	7.08 out of 10	45 out of 167

Frustrations with corruption manifest themselves in momentous election year

Events in 2019 highlighted Panama's strengths in the Democracy Index (which are related to the electoral process) as well as its weaknesses (which are related to functioning of government and political culture). Panamanians tend to vote out the existing government to prevent incumbents from extending their power beyond one term (consecutive presidential re-election is not permitted) and controlling Panama's fairly weak institutions. In line with this pattern, in May 2019 voters elected the current president, Laurentino Cortizo of the centre-left Partido Revolucionario Democrático (PRD), with the candidate of the previous Partido Panameñista government receiving just 11% of the vote. The election went without a hitch, and participation was high, at 73%; these strengths are reflected in the country's Democracy Index rating. However, the election was fundamentally a referendum on corruption—an important metric in the functioning of government aspect of our broad measure of democracy—and the electorate's frustration with government corruption was reflected in the results of the vote. Anti-corruption rhetoric was ubiquitous and elevated an independent presidential candidate, Ricardo Lombana, to third place, ousted numerous legislators seeking re-election and led to five independents being elected to the National Assembly (compared with just one previously).

Shortly after taking office in July 2019, and riding on anti-corruption momentum from the election, Mr Cortizo launched a process to reform the constitution. Changing the constitution has long been a concern of the electorate, with public opinion seeing it as a necessary step in tackling long-standing corruption and institutional weaknesses. Mr Cortizo's proposals sought to address these concerns through amendments that aim to strengthen the separation of state powers, increase the autonomy of the judiciary and improve public-sector transparency and accountability. However, perhaps reflecting the country's poor score for political culture, the process came up against problems in the legislature; deputies tacked on a series of additional and highly controversial amendments, giving themselves greater budget powers, increasing their protection from investigation, changing rules on Panamanian citizenship and trying to roll back LGBT rights. Some of the changes were dropped, but others remained, sparking protests and increasing tensions between the executive and the legislature.

Despite a good election showing by anti-corruption and independent candidates, the character of the legislature has not changed substantially. The legislative debate about constitutional reform has been largely undisciplined, procedurally chaotic and conducted without a clear agenda. Although the new government appears to be pursuing institutional shortcomings, there has yet to be a material improvement in the country's underlying score. The pervasiveness of corruption and a lack of transparency are conspicuously constant themes in the political landscape and will continue to represent a drag on Panama's overall Democracy Index ranking. Nevertheless, successful anti-corruption campaigns in 2020 and notable progress on constitutional reform will support a possible improvement in the Democracy Index next year.

Democracy Index 2019 by category

(On a scale of 0 to 10)

Electoral process	Functioning of government	Political participation	Political culture	Civil liberties
9.58	6.07	6.67	5.00	7.94

A free white paper containing the full index and detailed methodology can be downloaded from www.eiu.com/democracy-2019

Note on methodology

There is no consensus on how to measure democracy, and definitions of democracy are contested. Having free and fair competitive elections, and satisfying related aspects of political freedom, is the sine qua non of all definitions. However, our index is based on the view that measures of democracy that reflect the state of political freedom and civil liberties are not "thick" enough: they do not encompass sufficiently some crucial features that determine the quality and substance of democracy. Our index therefore also includes measures of political participation, political culture and functioning of government, which are, at best, marginalised by other measures.

Our index of democracy covers 167 countries and territories. The index, on a 0-10 scale, is based on the ratings (0, 0.5 or 1) for 60 indicators grouped in five categories: electoral process and pluralism; civil liberties; functioning of government; political participation; and political culture. Each category has a rating on a 0-10 scale, and the overall index of democracy is the simple average of the five category indices.

The category indices are based on the sum of the indicator scores in the category, converted to a 0-10 scale. Adjustments to the category scores are made if countries do not score a 1 in the following critical areas for democracy:

- whether national elections are free and fair;
- the security of voters;
- the influence of foreign powers on government; and
- the capability of the civil service to implement policies.

If the scores for the first three questions are 0 (or 0.5), one point (or 0.5 points) is deducted from the index in the relevant category (either electoral process and pluralism or functioning of government). If the score for question 4 is 0, one point is deducted from the functioning of government category index.

The index values are used to place countries within one of four types of regime:

- full democracies—scores greater than 8;
- flawed democracies—scores greater than 6, and less than or equal to 8;

- hybrid regimes—scores greater than 4, and less than or equal to 6; and
- authoritarian regimes—scores less than or equal to 4.

Policy trends

The government will uphold the current broad policy consensus on maintaining and strengthening Panama's role as a logistics and financial hub as the cornerstone of the country's economic development strategy. Policymaking under the Cortizo administration will remain market-friendly and continue to support macroeconomic stability. Notwithstanding efforts to tackle institutional shortcomings through constitutional reform, which may improve the business environment marginally, the government will struggle to improve poor perceptions of judicial independence and governance. There will be more success—albeit incremental and reactive—in combating money laundering and countering the financing of terrorism to meet international standards.

The greatest policy challenge, and the government's predominant objective, will be to accelerate growth, after economic activity slowed under Mr Varela, partly owing to the end of a cycle of mega-projects. Some large upcoming public works projects will boost growth, but given limited fiscal space, bolstering private-sector activity will be one of the primary tools used to re-energise the economy; the Cortizo government has passed a public-private partnership framework and has begun to reform public-procurement laws. Legislation to boost investment is expected and has firm support, given Mr Cortizo's legislative majority and the consensus on macroeconomic policymaking. Although these measures are broadly in line with the country's economic policy trajectory, Mr Cortizo, a former agriculture minister, has vowed to support the agricultural sector. He has initiated the gradual removal of price controls (left in place by the previous government) and proposed a law to abolish the Panamanian Food Safety Authority, which has been criticised for increasing Panama's dependence on agricultural imports.

Fiscal policy

We expect that, although the fiscal position will face near-term stresses, responsible fiscal policy management will help to improve the fiscal balance in the medium term. After the Cortizo government inherited a widening non-financial public-sector (NFPS) deficit, which reached 3.6% of full-year officially estimated GDP in the third quarter of 2019, the government reined in capital expenditure to bring the NFPS deficit down to an estimated 3.1% of GDP by end-2019. The 2020 budget also envisages expenditure cuts and a narrower deficit than the 2019 budget, suggesting prudent fiscal policymaking. As such, we expect restrained spending to help to reduce the NFPS deficit to 2.7% of GDP in 2020, and to 2% of GDP by 2022.

The fiscal accounts will also be supported by revenue from the Cobre Panamá mine (royalties are set at 2%, potentially generating US$40m per year by 2021) and a pick-up in global trade growth following the "phase-one" US-China trade deal. Mr Cortizo may raise recurrent expenditure, particularly on social spending and transport subsidies, but loose fiscal policy is improbable. However, spending is likely to increase ahead of the 2024 general election, widening the deficit to 2.3% of GDP in that year.

Notwithstanding our expectations of broadly prudent fiscal management, structural and cyclical factors will weigh on the country's fiscal position. Weaknesses in the country's fiscal framework are still evident after the current government eased the pace of fiscal consolidation by amending the country's Social Fiscal Responsibility Law (SFRL) in October 2019; the NFPS deficit ceiling is now 2.75% of GDP in 2020 (up from 1.75%), 2.5% in 2021 (from 1.75%) and 2% in 2022 (from 1.5%). At the same time, revenue-raising capabilities remain weak, and efforts to develop these capabilities do not appear to be a priority. These structural weaknesses will be compounded by cyclical headwinds, considering that the US-China trade war is unlikely to be resolved imminently and that global trade growth is projected to be modest compared with historical levels.

The public debt/GDP ratio is likely to increase in the forecast period but should remain manageable by regional standards. We forecast that the ratio will reach 48.5% at end-2020 and peak in 2022, at 50.6%. Despite a weak revenue base, the sovereign enjoys favourable market access, owing to strong macroeconomic foundations that stem from firm growth, low and stable inflation, and political stability, among other factors. Reflecting its good access, the sovereign reopened two bonds in November 2019 to raise US$1.3bn, securing its lowest rates for a ten-year US$300m bond (with a coupon of 2.83%) and a 34-year US$1bn bond (with a coupon of 3.6%).

Monetary policy

Monetary conditions will be dictated mainly by external factors, as Panama lacks a central bank and dollarisation is firmly entrenched. As Panama has no independent monetary policy, monetary developments in the US will be the primary influence on domestic interest rates, which will move in line with those of the Federal Reserve (Fed, the US central bank; we expect the Fed to cut rates once more, in June, before monetary tightening measures take hold in 2021-24 as US growth recovers. Interest rates and the money supply will reflect developments in the banking system. Growth in credit to the domestic private sector will accelerate modestly during the forecast period, but will remain weaker than the double-digit growth witnessed in 2010-15.

International assumptions

	2019	2020	2021	2022	2023	2024
Economic growth (%)						
US GDP	2.3	1.7	1.8	2.0	1.8	2.2
OECD GDP	1.6	1.5	1.8	1.9	1.9	2.0
World GDP	2.2	2.3	2.7	2.9	2.8	2.8
World trade	0.8	2.3	3.5	3.6	3.6	3.8
Inflation indicators (% unless otherwise indicated)						
US CPI	1.8	1.7	1.9	2.1	1.8	1.8
OECD CPI	1.9	1.8	2.0	2.1	2.1	2.0
Manufactures (measured in US$)	0.0	2.0	4.0	4.0	3.5	3.0
Oil (Brent; US$/b)	64.0	65.0	67.0	71.0	73.8	71.0
Non-oil commodities (measured in US$)	-6.2	1.6	3.0	1.5	1.1	1.3
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.2	1.5	1.6	1.8	2.2	2.3
US$:€ (av)	1.12	1.13	1.16	1.21	1.24	1.24
¥:US$ (av)	109.03	106.89	104.78	101.08	97.63	95.43

Economic growth

The economy will regain momentum gradually in 2020-24, after a slowdown in recent years. We expect growth to rise from an estimated 3% in 2019 to 3.7% in 2020, before stabilising at about 4% later in the forecast period. With infrastructure spending unlikely to return to the high levels of 2010-17, when real GDP grew by an average of 6.9% per year, a return to growth rates exceeding 6% is improbable. However, the operations of the Cobre Panamá mine, along with the construction of a new metro line in the capital, Panama City, and a fourth Panama Canal bridge, will support growth from 2020. We also expect that firmer US growth in 2021-24 will bolster the country's GDP growth prospects.

On the demand side, growth in private consumption is forecast to expand, from 3.1% in 2020 to an average of 3.4% in 2021-24. Investment growth will be firm, supported by spending on public works and strong, stable foreign direct investment (FDI) inflows. Services exports will continue to support growth in overall exports, which will outpace import growth throughout the forecast period. However, export growth will not reach the highs of 2016, when the Panama Canal's capacity was doubled.

On the supply side, the services sector (notably transport, retail and finance) will remain a pillar of growth, but the Cobre Panamá mine, which is expected to produce 320,000 tonnes of copper and more than 100,000 troy oz of gold per year by 2021, will help to engender significant growth in the mining sector and increase diversification. Efforts to boost tourism will achieve modest success, but will fall short of lofty government targets. Renewed construction sector activity will be supported by the expansion of the capital's metro system (a project valued at US$4.4bn and due to be completed by 2024), and the construction of the new bridge over the Panama Canal, (valued at US$1.5bn and due by 2024).

Nevertheless, external headwinds will continue to dampen our growth forecast. Despite the "phase-one" US-China trade deal, trade tensions will linger, weighing on Panama's services and export growth in the medium term, with knock-on effects for the rest of the economy. The emergence of the novel coronavirus in China is also a risk to Panama's growth; we assume that China's GDP growth will slow as a result of the disruption from the coronavirus, reducing global trade growth and weighing on Chinese economic activity in Panama. China is the largest supplier of Panama's Colón Free-Trade Zone and third-largest user of the Panama Canal, so we will be monitoring developments closely.

Economic growth

%	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
GDP	3.0	3.7	3.8	4.0	4.0	4.1
Private consumption	3.0	3.1	3.3	3.4	3.4	3.4
Government consumption	4.5	2.2	1.8	2.1	2.4	4.0
Gross fixed investment	2.0	4.0	4.6	4.6	4.5	4.2
Exports of goods & services	1.0	1.7	2.4	2.7	3.2	3.4
Imports of goods & services	0.0	1.3	2.2	2.4	2.8	2.8
Domestic demand	1.8	3.2	3.6	3.8	3.7	3.7
Agriculture	0.6	0.5	0.5	0.5	0.5	0.5
Industry	6.6	4.0	4.4	4.3	4.3	4.3
Services	1.8	3.6	3.7	4.0	4.0	4.1

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

We expect consumer price inflation to be muted in 2020, at an average of 0.2%. Although local factors will have some bearing on prices, Panama's dollarised economy means that it mostly imports US inflation, which is expected to remain low in the forecast period. Our outlook for average annual inflation of 1.3% in 2021-24 reflects a modest rise in international oil prices, but is also based on the expectation that domestic demand will expand moderately, owing to a recovery in world trade that will support Panama's externally orientated economy.

Exchange rates

Dollarisation is well established and will be retained throughout the forecast period. We expect that the US dollar will hold steady in 2020, before softening gradually in 2021-24 as the euro zone outlook improves. The dominance of Panama's services sector in trade reduces the effect of fluctuations in the value of the dollar. The impact of shifts in the real exchange rate on Panama's re-export trade sector is mitigated by the fact that re-exports have high import content, but the effects will nonetheless be felt.

External sector

The current-account deficit will narrow in the first half of the forecast period, from an estimated 5.7% of GDP in 2019 to 4% of GDP by 2021. This is based on the assumption that the trade deficit narrows in the same period; the Cobre Panamá mine (which reached commercial production in September 2019) will boost exports, and subdued oil prices will assuage upward pressure on the import bill. We expect the mine, which exported its first copper and gold in June 2019, to generate about US$2bn (more than 2% of GDP) in export earnings by 2021—although this projection is subject to legal risks and shifts in copper prices. Meanwhile, we envisage a narrowing of the primary income deficit, from an estimated 7.5% of GDP in 2019 to 6.9% in 2021, and a still firm services surplus, which will average 12.3% of GDP in 2020-21 but may face short-term pressures stemming from the impact of the coronavirus. However, the current-account deficit will begin to widen after 2021, reaching 6.1% of GDP in 2024. This reflects a larger import bill as oil prices pick up later in the forecast period.

Strong (but slowly declining) capital inflows will continue to finance the current-account deficit; FDI inflows will average 7.2% of GDP in 2020-24. International reserves coverage will remain low (at less than two months of imports), but as Panama has a dollarised economy, the authorities do not have to contend with exchange-rate fluctuations or currency mismatches.

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
Real GDP growth	3.0	3.7	3.8	4.0	4.0	4.1
Industrial production growth	6.6	4.0	4.4	4.3	4.3	4.3
Gross agricultural production growth	0.6	0.5	0.5	0.5	0.5	0.5
Unemployment rate (av)	6.9	6.5	6.1	5.8	5.6	5.5
Consumer price inflation (av)	-0.4[c]	0.2	1.0	1.2	1.4	1.4
Consumer price inflation (end-period)	-0.1[c]	0.8	1.1	1.3	1.4	1.4
Lending interest rate	7.4	7.0	7.4	7.0	8.0	8.1
NFPS balance (% of GDP)	-3.1	-2.7	-2.5	-2.0	-2.0	-2.3
Exports of goods fob (US$ bn)	14.8	15.5	16.4	17.3	18.0	18.7
Imports of goods fob (US$ bn)	21.7	21.9	23.2	24.7	26.2	27.6
Current-account balance (US$ bn)	-3.8	-2.9	-2.9	-3.3	-4.4	-5.1
Current-account balance (% of GDP)	-5.7	-4.2	-4.0	-4.3	-5.6	-6.1
External debt (year-end; US$ bn)	101.1	105.6	111.3	116.3	121.3	126.7
Exchange rate B:US$ (av)	1.00[c]	1.00	1.00	1.00	1.00	1.00
Exchange rate B:¥100 (av)	0.92[c]	0.94	0.95	0.99	1.02	1.05
Exchange rate B:€ (end-period)	1.12[c]	1.14	1.19	1.23	1.24	1.24
Exchange rate B:SDR (end-period)	1.37[c]	1.38	1.41	1.44	1.45	1.46

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Data and charts

Annual data and forecast

	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[c]	2021[c]
GDP							
Nominal GDP (US$ m)	54,092	57,958	62,284	65,055	67,037	69,502	72,478
Real GDP growth (%)	5.7	5.0	5.6	3.7	3.0	3.7	3.8
Expenditure on GDP (% real change)							
Private consumption	2.9	7.1	2.4[b]	2.3[b]	3.0	3.1	3.3
Government consumption	7.6	10.1	6.5	7.5	4.5	2.2	1.8
Gross fixed investment	6.5	2.1	7.6	0.9	2.0	4.0	4.6
Exports of goods & services	0.9	-4.3	5.0	5.0	1.0	1.7	2.4
Imports of goods & services	-0.1	-4.8	4.7	2.8	0.0	1.3	2.2
Origin of GDP (% real change)							
Agriculture	0.1	0.8	0.6	0.9	0.6	0.5	0.5
Industry	10.2	6.9	6.4	2.6	6.6	4.0	4.4
Services	4.4	4.4	5.5	4.2	1.8	3.6	3.7
Population and income							
Population (m)	4.0	4.0	4.1	4.2	4.2	4.3	4.4
GDP per head (US$ at PPP)	22,235	23,197	24,473	25,554	26,495	27,520	28,649
Recorded unemployment (av; %)	4.5	4.4	6.0	6.0	6.9	6.5	6.1
Fiscal indicators (% of GDP)							
Non-financial public-sector revenue	19.8	20.1	20.0	19.7	18.4	18.1	18.5
Non-financial public-sector expenditure	22.0	21.9	21.8	21.8	21.5	20.8	20.9
Non-financial public-sector balance	-2.2	-1.8	-1.9	-2.1	-3.1	-2.7	-2.5
Net public debt	37.6	37.3	38.1	39.4	46.2	48.5	49.9
Prices and financial indicators							
Exchange rate B:US$ (end-period)	1.00	1.00	1.00	1.00	1.00[a]	1.00	1.00
Exchange rate ¥:B (end-period)[d]	120.3	116.8	112.7	109.7	108.7[a]	106.5	103.0
Consumer prices (end-period; %)	0.3	1.5	0.5	0.2	-0.1[a]	0.8	1.1
Stock of money M1 (% change)	-1.2	0.4	1.2	4.5	-9.4	3.7	4.3
Stock of money M2 (% change)	4.4	5.4	4.9	3.0	2.5	4.5	5.1
Lending interest rate (av; %)	7.5	7.5	7.5	7.8[b]	7.4	7.0	7.4
Current account (US$ m)							
Trade balance	-8,333	-7,761	-8,469	-9,206	-6,874	-6,441	-6,797
Goods: exports fob	14,209	12,933	13,817	14,757	14,782	15,475	16,437
Goods: imports fob	-22,542	-20,694	-22,286	-23,963	-21,656	-21,915	-23,234
Services balance	7,042	7,496	8,661	8,844	8,103	8,561	8,945
Primary income balance	-3,451	-4,136	-3,760	-4,922	-4,996	-4,972	-4,985
Secondary income balance	-106	-104	-124	-70	-74	-77	-81
Current-account balance	-4,848	-4,505	-3,692	-5,355	-3,841	-2,929	-2,918
External debt (US$ m)							
Debt stock	88,566	89,492	91,795[b]	98,815[b]	101,086	105,550	111,289
Debt service paid	2,646	7,120	5,702[b]	8,285[b]	10,080	12,346	12,255
Principal repayments	979	4,420	2,722[b]	4,700[b]	6,401	8,832	8,778
Interest	1,667	2,700	2,980[b]	3,585[b]	3,679	3,514	3,476
Debt service due	2,646	7,120	5,702[b]	8,285[b]	10,080	12,346	12,255
International reserves (US$ m)							
Total international reserves	3,378	3,847	2,703	2,121	3,424	2,221	2,421

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] US dollar used as local currency, known as Balboa.

Source: IMF, International Financial Statistics.

Quarterly data

	2018				2019			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Government finance (B m)								
Revenue	2,803	2,920	2,671	4,422	2,618	2,711	2,741	n/a
Expenditure	3,299	3,486	3,813	3,557	3,584	4,062	2,879	n/a
Balance	-496	-566	-1,142	865	-966	-1,351	-138	n/a
Prices								
Consumer prices (2013=100)	104.9	105.4	105.5	105.1	104.6	105.1	105.0	104.7
Consumer prices (% change, year on year)	0.4	0.9	1.0	0.7	-0.3	-0.2	-0.5	-0.4
Financial indicators								
Exchange rate B:US$ (av)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Exchange rate B:US$ (end-period)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Deposit rate (av; %)	2.1	2.1	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)	7.5	7.6	n/a	n/a	n/a	n/a	n/a	n/a
M1 (end-period; B m)	8,113	8,128	7,843	8,726	7,861	7,865	7,616	7,910
M1 (% change, year on year)	1.5	2.6	-3.1	4.5	-3.1	-3.2	-2.9	-9.4
M2 (end-period; B m)	40,300	40,266	40,226	41,220	40,972	41,210.3	41,195.7	42,245.2
M2 (% change, year on year)	4.1	3.0	1.5	3.0	1.7	2.3	2.4	2.5
Foreign trade (excl Canal Zone; US$ m)								
Exports fob	154	180	160	142	157	188	202	166
Imports cif	-2,915	-3,071	-3,221	-3,536	-3,167	-3,424	-3,130	-3,115
Trade balance	-2,761	-2,891	-3,062	-3,395	-3,011	-3,235	-2,928	-2,949
Balance of payments (US$ m)								
Merchandise trade balance fob-fob	-2,125	-2,096	-2,468	-2,518	-2,298	-2,313	-2,027	n/a
Services balance	2,455	2,313	2,076	2,001	2,394	2,196	2,133	n/a
Primary income balance	-1,843	-1,160	-1,283	-636	-1,374	-1,046	-977	n/a
Net transfer payments	-20	-7	-32	-11	-18	-12	-30	n/a
Current-account balance	-1,534	-949	-1,707	-1,165	-1,296	-1,175	-900	n/a
Reserves excl gold (end-period)	1,932	2,011	1,347	2,121	1,970	2,147	2,328	3,424

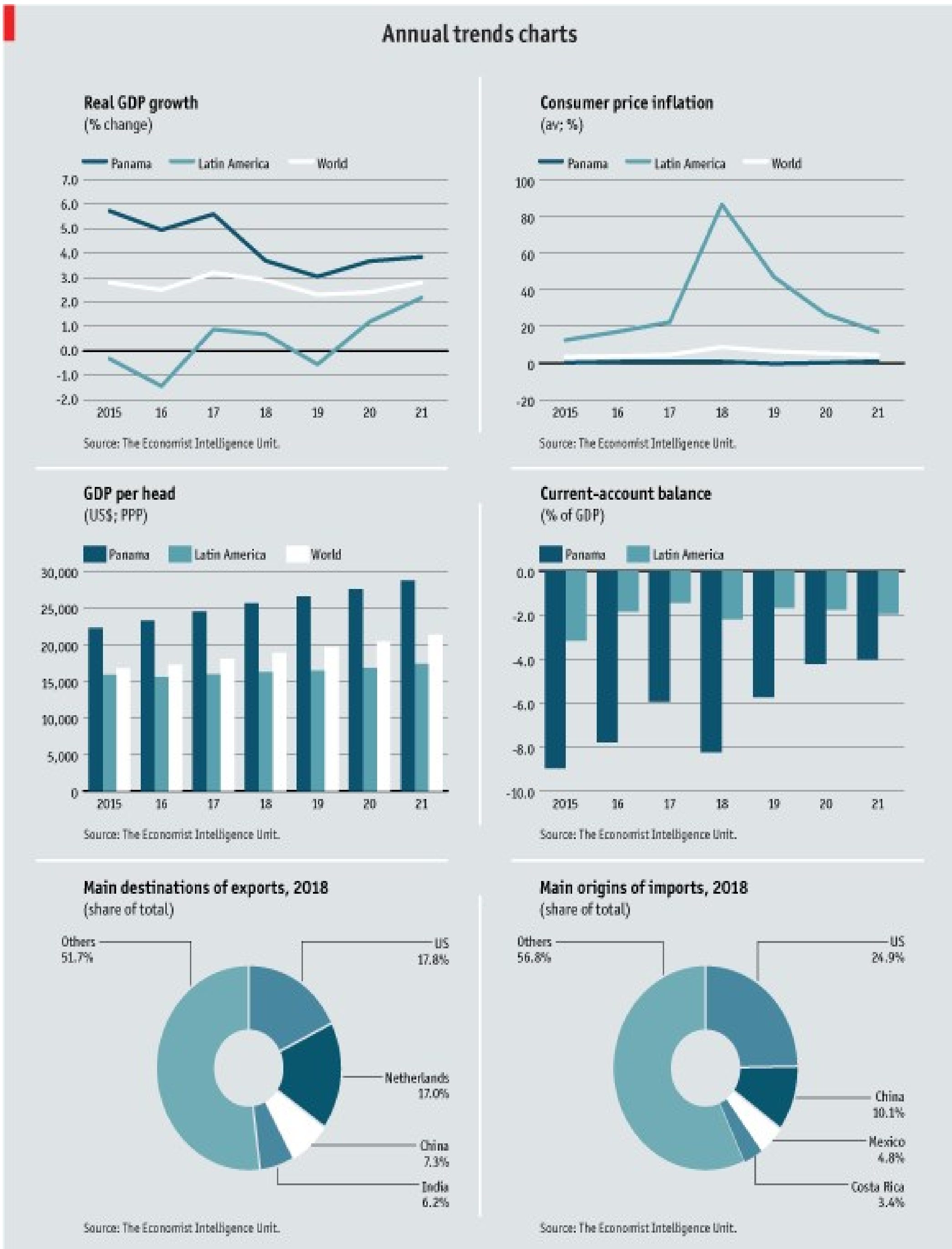
Source: IMF, International Financial Statistics.

Monthly data

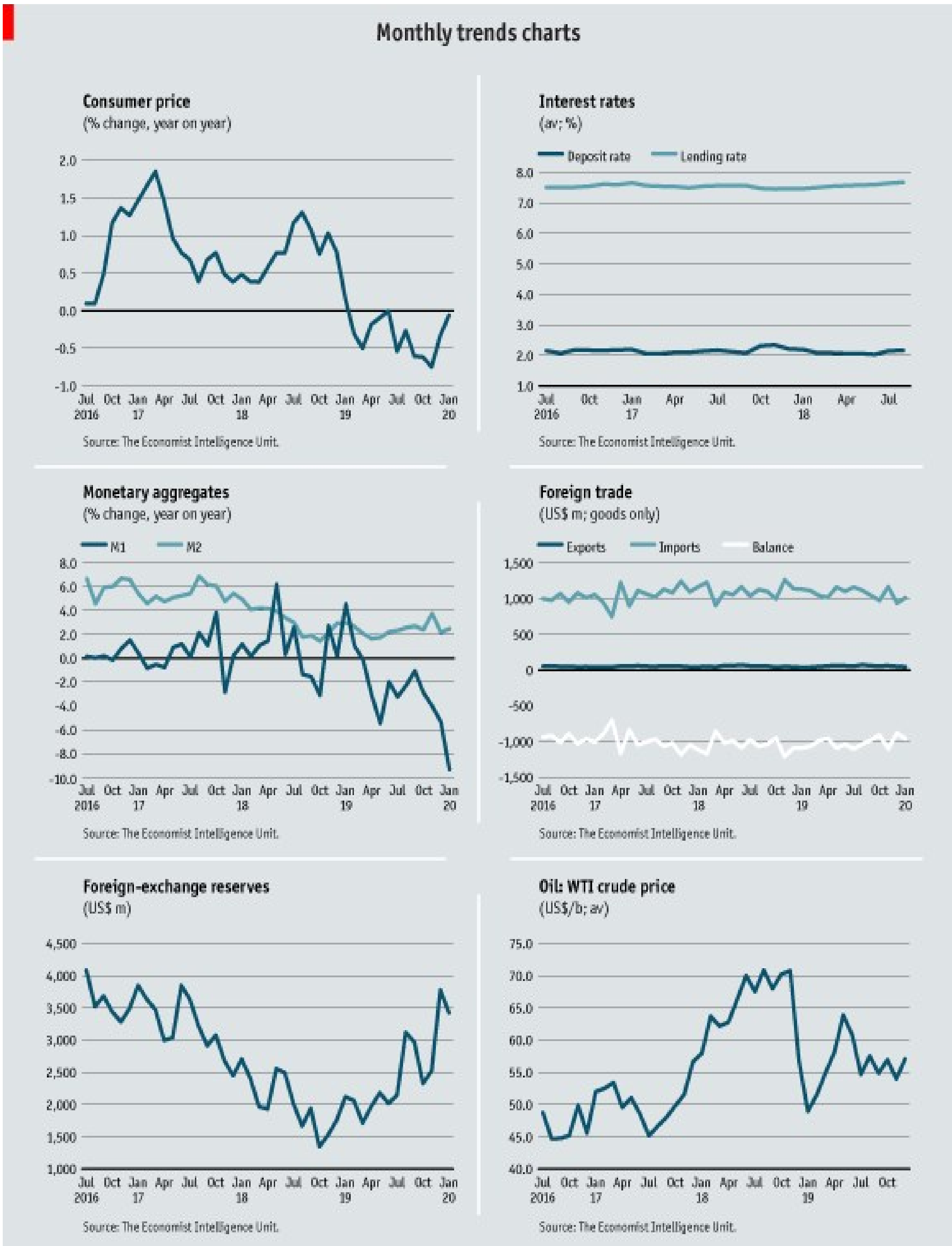
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real effective exchange rate index (2010=100; PPI-based)												
2017	101.3	100.3	99.9	98.8	99.4	98.9	98.3	97.1	96.2	97.0	96.3	95.6
2018	93.3	92.6	92.2	92.2	93.3	94.4	95.3	96.1	95.9	96.3	96.9	96.9
2019	95.3	95.5	95.7	95.6	96.6	96.5	96.5	97.7	97.8	97.7	97.5	97.0
Deposit rate (av; %)												
2017	2.1	2.1	2.1	2.1	2.1	2.2	2.1	2.1	2.3	2.3	2.2	2.2
2018	2.1	2.1	2.1	2.1	2.0	2.2	2.2	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	7.6	7.5	7.5	7.5	7.5	7.6	7.6	7.6	7.5	7.5	7.5	7.5
2018	7.5	7.5	7.6	7.6	7.6	7.6	7.7	n/a	n/a	n/a	n/a	n/a
2019	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	-0.8	-0.5	-0.8	0.9	1.2	0.1	2.2	1.1	3.8	-2.8	0.2	1.2
2018	0.2	1.1	1.5	6.2	0.3	2.6	-1.3	-1.6	-3.1	2.7	0.2	4.5
2019	1.1	-0.1	-3.1	-5.5	-2.0	-3.2	-2.3	-1.1	-2.9	-4.0	-5.3	-9.4
M2 (% change, year on year)												
2017	4.6	5.2	4.7	5.1	5.2	5.4	6.9	6.2	6.1	4.8	5.4	4.9
2018	4.1	4.2	4.1	3.9	3.4	3.0	1.8	1.9	1.5	2.2	2.9	3.0
2019	2.7	2.1	1.7	1.8	2.2	2.3	2.6	2.7	2.4	3.7	2.2	2.5
Economic activity indicator (NSA; % change, year on year)												
2017	4.5	6.1	7.9	6.0	6.6	5.8	3.8	4.9	4.4	4.1	4.2	4.0
2018	4.6	3.1	2.9	4.6	1.4	2.8	2.0	3.4	3.8	3.0	3.5	3.8
2019	3.6	3.7	3.0	2.9	2.4	2.9	3.6	3.2	4.0	3.4	3.6	n/a
Economic activity indicator (SA; % change, year on year)												
2017	4.8	5.7	6.6	6.5	7.0	5.1	5.0	5.2	4.5	4.4	4.7	4.7
2018	4.2	3.4	4.7	4.3	1.2	3.1	2.0	2.5	3.3	3.3	3.3	3.7
2019	3.3	3.4	3.0	3.0	2.9	3.0	3.7	3.9	4.2	3.2	3.9	n/a
Consumer prices (av; % change, year on year)												
2017	1.7	1.9	1.5	1.0	0.8	0.7	0.4	0.7	0.8	0.5	0.4	0.5
2018	0.4	0.4	0.6	0.8	0.8	1.2	1.3	1.1	0.8	1.0	0.8	0.2
2019	-0.3	-0.5	-0.2	-0.1	0.0	-0.5	-0.3	-0.6	-0.6	-0.7	-0.3	-0.1

Sources: IMF, International Financial Statistics; Haver Analytics; Dirección de Estadística y Censo.

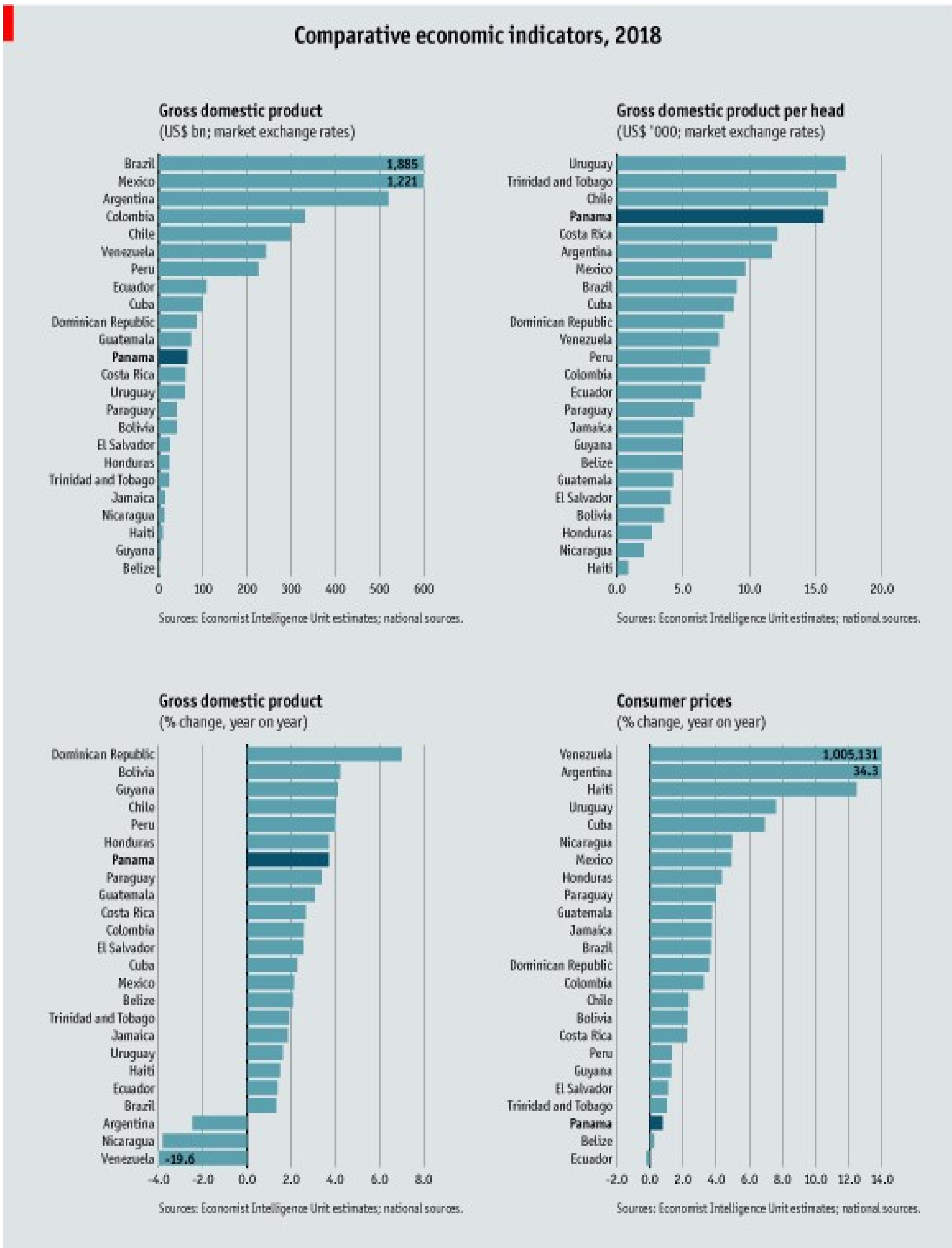
Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

75,517 sq km; mainly mountainous, with lowlands along the Pacific and Atlantic coasts

Population

4.2m (2018, UN estimate)

Main towns

Population in '000 (national census, 2010)

Panama City (capital): 888

Colón: 207

David: 149

Climate

Tropical

Weather in Tocumen (altitude 42 metres)

Hottest month, April, 21-36°C (average daily minimum and maximum); coldest month, January, 20-34°C; driest month, February, 5mm average rainfall; wettest month, November, 375 mm average rainfall

Language

Spanish

Measures

Metric system

Currency

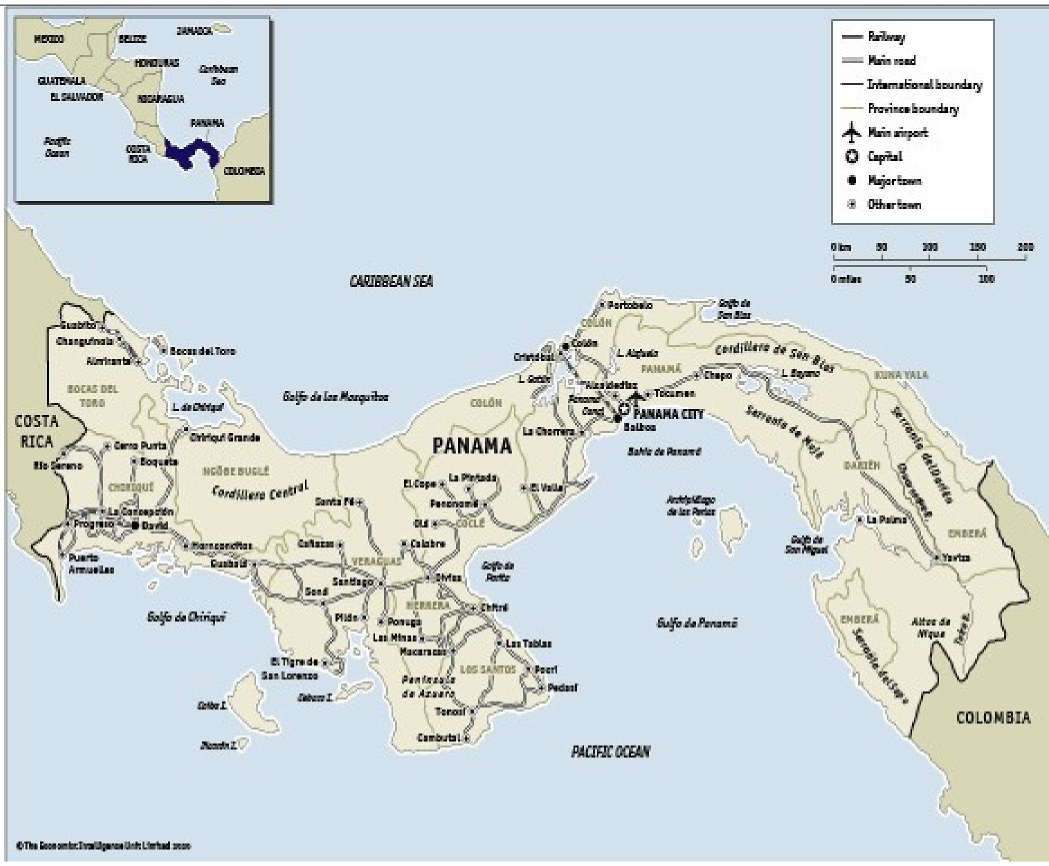
1 balboa (B) = 100 centésimos. The US dollar is used as local currency; locally minted coins with the same denominations as US coins are in circulation

Time

5 hours behind GMT

Public holidays

January 1st (New Year's Day); January 9th (Martyrs' Day); February 25th (Carnival); April 10th (Good Friday); May 1st (Labour Day); August 15th (Foundation of Panama City—Panama City only); November 3rd (Separation Day); November 4th (Flag Day); November 5th (Colón Day); November 10th (Los Santos Uprising); November 28th (Independence Day); December 8th (Mother's Day); December 24th-25th (Christmas Eve and Christmas Day); December 31st (New Year's Eve)



Political structure

Official name

Republic of Panama

Form of state

Presidential democracy with a National Assembly and an independent judicial system

The executive

The president is the head of state, elected for a five-year term by universal adult suffrage; a vice-president and a cabinet are appointed by the president

National legislature

National Assembly; a 71-member unicameral legislature elected directly by universal adult suffrage for a five-year term

Legal system

The president proposes judges for the Supreme Court; they are approved by the National Assembly and sit for terms of ten years; a system of appeal originates in courts of first instance, rising to the Supreme Court at the apex

National elections

The most recent elections (legislative and presidential) took place in May 2019; the next elections are due in May 2024

National government

Laurentino Cortizo of the centre-left Partido Revolucionario Democrático (PRD) took office on July 1st 2019 for a five-year term. Mr Cortizo's party has 35 seats in the National Assembly, but has an alliance with the Movimiento Liberal Republicano Nacionalista (Molirena) party, which holds five seats, giving it a workable majority

Main political organisations

Government: PRD and Molirena

Opposition: Partido Panameñista (PP) and Cambio Democrático (CD)

Key ministers

President: Laurentino Cortizo (PRD)

Vice-president (also presidency minister): José Gabriel Carrizo (PRD)

Agricultural development: Augusto Valderrama (non-aligned)

Canal affairs: Aristides Royo (PRD)

Commerce & industry: Ramón Martínez de la Guardia (PRD)

Economy & finance: Héctor Alexander (PRD)

Education: Maruja Gorday de Villalobos (non-aligned)

Environment: Milciades Concepción (PRD)

Foreign relations: Alejandro Ferrer López (independent)

Government: Sheyla Grajales (Molirena)

Health: Rosario Turner Montenegro (PRD)

Housing & land management: Inés Samudio de Gracia (non-aligned)

Labour: Doris Zapata Acevedo (PRD)

Public works: Rafael Sabonge Vilar (PRD)

Security: Juan Pino (non-aligned)

Social development: Markova Concepción Jaramillo (non-aligned)

Recent analysis

Generated on February 26th 2020

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

Cortizo makes big concession on constitutional reform

January 3, 2020: Political stability

Event

In late December the president, Laurentino Cortizo, announced that he was withdrawing constitutional reform proposals that he had submitted to the legislature, to allow for further consultation under the auspices of the United Nations Development Programme (UNDP).

Analysis

In response to growing mistrust in the current constitutional reform process, Mr Cortizo has announced that there will be an additional five- to six-month consultation period in which the UNDP will act as a facilitator. The president's original plan was to approve reforms in two successive legislative votes, which were to be held in late 2019 and early 2020, after which it would go to a constitutional referendum, possibly in October 2020. However, the first legislative debate of the bill was highly controversial. The text was approved only after deputies attached unpopular amendments defending their privileges, criminalising some expressions of opinion on social media, preventing same-sex marriage and tightening nationality laws. There were also demonstrations led by students and trade unions. Although Mr Cortizo vetoed most of the unpopular amendments, the reform process nevertheless became tainted.

UNDP involvement is already conferring greater legitimacy to the process. Calling on political parties to support a new dialogue, the decision of Mr Cortizo was received positively by the leader of the largest opposition party, Rómulo Roux of Centro Democrático, and the leader of the third-largest opposition party, José Blandón of the Partido Panameñista. The re-think has also been welcomed by some supporters of the ruling centre-left Partido Revolucionario Democrático and the leaders of the 2019 student demonstrations, with the latter approving of the more inclusive approach.

In line with our expectations, the reform process is increasingly unlikely to be completed within the administration's timetable. Whether the process will still require the planned referendum or, alternatively, the election of a new constituent assembly, remains open. In any case, Mr Cortizo faces an ongoing political challenge. Despite enjoying a legislative majority, deputies from his own and other parties are seen as defending their privileges and putting up obstacles to reform.

Impact on the forecast

The decision to be flexible and consult further will be popular, supporting political stability and helping Mr Cortizo's approval ratings at a key point—six months after he took office. The reform process, however, will be prolonged and will risk further conflict between the executive and the legislature. We retain our expectation that constitutional reform will occur under Mr Cortizo, but further setbacks carry significant risks to its completion.

Changes to constitutional reform process take shape

February 7, 2020: Political stability

Event

Following the government's memorandum of understanding with the UN Development Programme (UNDP) in late December 2019—which was designed to promote a national dialogue on constitutional reform—the details of the new process are slowly emerging.

Analysis

The initial plan to have in place a new constitution by late 2020 now looks impossible. The UNDP says it will need up to six months to design a new consultation process, which would then be conducted over a year—running between July 2020 and June 2021. It is likely that reforms would then be submitted to two readings by the National Assembly in late 2021 and early 2022, with a referendum following in late 2022 or in 2023. In short, the process could take three or four years longer than expected.

The original plan had been to submit a draft reform bill to two separate meetings of the National Assembly in late 2019 and early 2020. That would then allow for a referendum in late 2020. However, students, trades union and civil-society groups protested last year against a series of unpopular amendments to the draft, which had been tacked on by conservative legislators. Even though the president, Laurentino Cortizo, vetoed the amendments in question, it was clear that a section of public opinion had lost confidence in the reform process; the withdrawal of the reforms and subsequent agreement with the UNDP was thus welcomed by the ruling and opposition parties, in order to shore up confidence in the process.

Despite some renewed trust in the process, Mr Cortizo continues to face pressure over amendments to the new plan. The lobby group known as Foro Ciudadano por la Constituyente (Citizen Forum for a Constituent Assembly) has rejected what it describes as "foreign influence" in the new reform process, potentially referring to the UNDP. The group will try to compel Mr Cortizo to make further procedural changes and to agree to the election of a constituent assembly, reflecting the view among trade unions, students and some left-wing parties that the legislature lacks the legitimacy needed for the reform process.

Impact on the forecast

We already expected the reform process to exceed the government's timeframe. However, given the protraction of the process and changes to the original plan, there are growing risks to our expectation that Mr Cortizo will successfully achieve constitutional reform. Moreover, should the president be perceived to lose control of the process, business confidence may slide.

Economy

Forecast updates

Government displays caution over minimum wage adjustment

January 7, 2020: Inflation

Event

In late December the government announced a new schedule for minimum wage levels over the next two years.

Analysis

Effective from January 15th, the increases range between 1% and 8%. The countrywide average is 3.3%. Although short of what they originally demanded (a 25% increase), banana plantation workers received the maximum 8% increase. The minimum wage for workers in tourism (which has been struggling with a downturn) was increased by only 1%, while workers in the similarly troubled Colón Free Trade Zone (ZLC) received 1% as well. In contrast, mining workers—in demand because of the launch of the large Cobre Panama copper mine—received a 6% rise. For financial sector workers, the minimum wage increased by 3.1%, to US$3.27 per hour.

Under existing regulations, minimum wage levels are set for a total of 37 job categories by a tripartite minimum wage council on which employers, trade unions and the government are all represented. After four months of negotiations running to the end of 2019 there was a deadlock, with trade unions demanding a range of increases and employers calling for a minimum wage freeze. In the end, the Ministry of Labour has imposed its preferred increases—which according to the labour minister, Doris Zapata, are designed to take into account inflation—labour-market supply and demand, and conditions across different industries.

Against a backdrop of tepid consumer price inflation—which has averaged roughly 1% over the past five years—and slackening economic growth, the government appears to be trying to strike a balance between its desire to boost economic recovery with an equal desire to remain competitive. Earlier, the president, Laurentino Cortizo, said that a 25% salary increase would have simply priced workers out of a job; employers made the same point, noting that the unemployment rate is high, at 7.1%. Despite these considerations, the unions have adopted a confrontational tone, with the national labour council (Conato) describing the government's decision as the worst salary adjustment in Panamanian history (the last minimum wage increase was between 4.5% and 6.5% in 2017).

Impact on the forecast

We expect the moderate adjustments to the minimum wages, which broadly reflect the dynamism of each sector, to have a limited impact on the trajectory of inflation and growth. Assuming that mining activity and infrastructure projects ramp up, we continue to expect growth to pick up in 2020, while consumer price inflation will remain largely muted.

Government extends price controls

January 14, 2020: Policy trends

Event

On January 8th the government announced the extension of several limited foodstuff price controls for another six months, sparking criticism from the country's principal business lobby, the Cámara de Comercio, Industrias y Agricultura de Panama (CCIAP).

Analysis

There had been expectations in January that the 14-item list would be narrowed further to seven products, after the removal of several controls in July 2019. However, to the CCIAP's disappointment, the government chose to prolong price controls on the 14 remaining foodstuffs for another six months. The centre-left president, Laurentino Cortizo, explained that the continuation of price controls was to prevent an inflationary uptick at a time when the government had just raised the minimum wage.

The former president, Juan Carlos Varela (2014-19), made an electoral pledge to freeze the prices of 22 staple products. Although these controls were described as a six-month emergency measure, they were regularly renewed and ended up remaining in place for the entire five years of Mr Varela's term in office. Mr Cortizo has shown a disposition to do away with the controls, especially as one of his first measures in office (beginning in July 2019) was to reduce the number of controlled items from 22 to 14. The list now includes only household staples, such certain cuts of beef, chicken, onions, rice, bread and cassava.

In response to the government's announcement, the CCIAP argued that the extension of price controls will lead to further market distortions and hinder economic growth. The organisation stated that the best way to stimulate a recovery would be to lift all interventionist measures—a view shared by other private-sector organisations.

Nevertheless, relations between the private sector and the Cortizo administration appear to be good. It is likely that the government's decision to keep some controls in place is more of a political manoeuvre, easing pressures on households amid slackening growth and rising unemployment (7.1% in August). In fact, Mr Cortizo noted that some remaining price controls may well be removed at a later date. Considering our assumption that the labour market will firm up as the economy recovers over the medium term, we expect that the government will have greater scope to lift some controls.

Impact on the forecast

The disagreement over the extension of price controls with businesses is relatively minor and does not impact our forecasts. We maintain our expectation that consumer price inflation will be muted this year, averaging less than 1%.

Airport visitor arrivals fall in November

January 27, 2020: Economic growth

Event

According to the Instituto Nacional de Estadística y Censo (INEC, the national statistics institute), visitor arrivals at Tocumen International Airport fell by 6.8% year on year in November 2019, after rising by only 0.6% year on year in July.

Analysis

Tocumen is the main point of entry for tourists arriving in Panama, and the latest data confirm concerns that 2019 was an unspectacular year for the tourism sector. Visitor arrivals at Tocumen in November totalled 134,145—down from 157,037 in 2018. Arrivals from South America, the most important source of visitors, were down by 6%. There was also a 4% drop in visitors from North America, the second most important market, and a decline of 9% in visitors from both Central America and Europe. Visitors from China fell by 27%, totalling 1,930.

No single factor explains the softness in visitor arrivals. However, the number of arrivals was probably affected by the depreciation of South American currencies against the US dollar, a slowdown in global growth and strong competition from rival destinations, particularly in the Caribbean. On taking office in July last year, the tourism minister, Iván Eskildsen, stated that the industry was in "critical" condition and announced several measures to boost the ailing sector.

Officials believe that there will be a recovery in 2020. Liriola Pittí, the head of the tourism promotion agency, Promtur, expects tourism arrivals to increase by 10-12% in 2020, with one potential driver being the Panama Stopover programme, which allows travellers changing flights at Tocumen to stay one or two days in the country at favourable rates. Officials say that 27,000 travellers benefited from the initiative last year, and an additional 125,000 visitors are expected this year. This objective will be aided by increased spending on marketing campaigns; Promtur launched campaigns in the North American market in late 2019. The government is also offering 100% tax breaks to medium- or large-scale tourism-related investment projects outside the capital, Panama City.

Impact on the forecast

We are likely to revise our assumption that an increase in Chinese visitors would support growth in the tourism sector. Nevertheless, a modest uptick in global growth this year will be supportive of an increase in arrivals. We believe that the government's targets are overoptimistic, however, considering that we expect a slowdown in US growth this year. An uptick in tourism arrivals is unlikely to dent the country's sizeable services balance surplus, which will average 12.4% in 2020-21.

Economic activity ticks up in November 2019

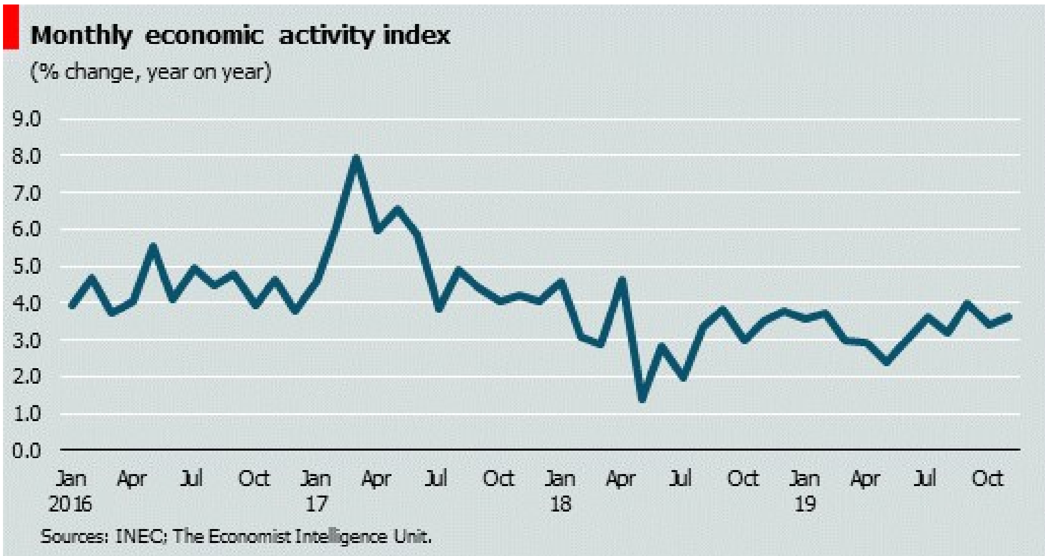
January 28, 2020: Economic growth

Event

Output in November 2019 increased by 3.6% year on year, according to the IMAE (the monthly economic activity index) published by INEC (the national statistics institute).

Analysis

In line with our expectations, the IMAE appears to be displaying greater dynamism in the second half of 2019, compared with the first half. Although INEC does not release disaggregated data to illustrate the drivers behind the IMAE, it noted that positive performances were recorded from sectors such as mining and quarrying; transport, warehousing and communications; and agriculture. Greater activity from the mining sector is no surprise after GDP data for the third quarter revealed that the sector grew by over 80% year on year, owing to the ramping up of operations at Cobre Panamá. We expect the mine to generate around US$2bn in copper exports by 2021 and provide a boost to an economy that has been decelerating.



The transport, warehousing and communications sector—one of the main drivers of Panamanian growth—performed well, owing to activity from the Panama Canal and the National Port System. November 2019 was a particularly notable month for the Panama Canal, as the number of ships traversing it grew by 18% year on year—the highest growth rate recorded in over a decade. The agricultural sector (a small driver of overall growth) also performed well, owing to beef exports, which grew by 121% year on year in November 2019 (possibly explained by increased beef exports to China, which only began in June of that year).

The construction sector (which accounts for 15% of GDP) was absent from the list of positive November IMAE results. Several large-scale infrastructure projects that were scheduled to take off in the second half of 2019 lost steam, including the expansion of the capital's (Panama City) metro system and the construction of a fourth bridge over the Panama Canal. However, these projects are set to gain momentum in 2020, supporting our expectation of a recovery for the domestic economy.

Impact on the forecast

The November data confirm our restrained GDP growth estimate of 3.3% in 2019. Although the IMAE appears to be displaying greater strength in the second half of the year, it will not be enough to lift growth above the 2018 outturn of 3.7%. Our forecast for a modest recovery of 3.5% in 2020 is unchanged, but is subject to an upwards revision if the fourth-quarter GDP growth result surprises on the upside (considering carryover effects).

Public debt levels jump in 2019

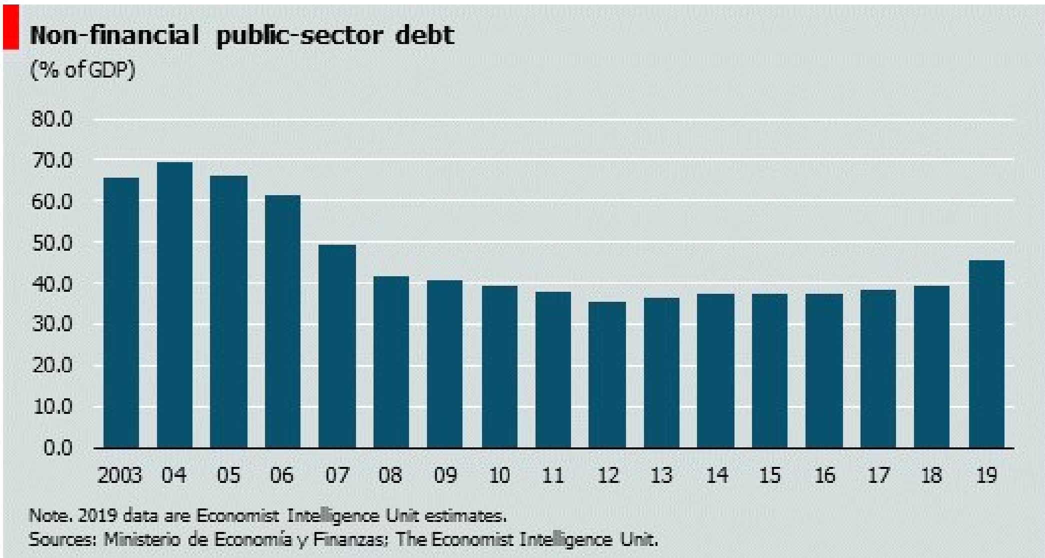
January 30, 2020: Fiscal policy outlook

Event

According to the Ministry of Economy and Finance, the total non-financial public-sector (NFPS) debt stock reached US$31bn at end-2019, an increase of 21% from US$25.7bn at end-2018.

Analysis

The rise was driven by increases in external and internal debt (held by non-residents and residents, respectively): in year-on-year terms, external debt rose by 18% and internal debt rose by 33%. The external debt stock grew notably in the second half of 2019, reaching US$24.2bn, with the new government led by the president, Laurentino Cortizo, issuing US$2bn in sovereign bonds in July and reopening bonds in November to raise a further US$1.3bn. Domestic public debt rose to US$6.3bn, mainly owing to an increase in the use of short-term debt instruments in the first half of the year—the stock of Treasury notes at end-2019 reached US$2.9bn, up by 62% year on year.



Following nearly a decade of a stable public debt (as a share of GDP), it appears to have surpassed the 40% threshold in 2019. This is partly because the rise in the public debt stock coincided with the country's lowest growth rate in a decade—we estimate that growth slowed to 3.3% last year. In he recent past, the public debt/GDP ratio had been constrained more by rapid GDP growth, averaging 7% in 2010-17, rather than a reduction in the public debt stock.

We expect that this ratio will rise in the near term, albeit with little consequence for the sovereign's access to external financing. Firstly, we believe that the public debt stock will increase, owing to the government's 2020 budget indications that external borrowing will reach at least US$3bn. Secondly, although we expect that GDP growth will recover slightly (reaching 3.5%), it will remain below potential—falling short of the government's budget assumption of 5%. Nevertheless, the sovereign will retain reasonably good market access, benefiting from a benign external environment, low and stable inflation, firmly entrenched dollarisation, and broadly stable macroeconomic policymaking. We expect responsible fiscal management to help to stymie the growth of the public debt/GDP ratio by 2024, and augur the orderly repayment of roughly US$10bn in debt due in 2020-24.

Impact on the forecast

The year-end public debt figures are broadly supportive of our 2019 estimate of a public debt/GDP ratio of 45%. Considering the government's external financing plans (and GDP growth of 3.5% in 2020), we maintain our forecast that the public debt/GDP ratio will climb higher, to 47.4% in 2020.

Business leaders seek action over public procurement law

January 31, 2020: Policy trends

Event

On January 26th the CCIAP (the chamber of commerce for industry and agriculture) urged the government to prioritise changes to the public procurement law.

Analysis

The CCIAP's main concern is that existing public procurement rules established in Law 22 of 2006 need to be updated and modernised to strengthen anti-corruption efforts. Law 22 has already been amended 13 times in the past 14 years. The government of the president, Laurentino Cortizo, is keen to modernise the country's rules; the law has been under increasing scrutiny recently because of several high-profile corruption cases involving public contracts.

A legislative committee has already been hearing evidence from interested parties in order to draft the latest amendments. Corruption is a top concern among voters, and both Mr Cortizo and the newly appointed attorney-general, Eduardo Ulloa, are keen to avoid any new irregularities by strengthening the integrity of the procurement process. It is unclear, however, whether the new law will preserve the status quo—which allows companies convicted of serious offences to complete their projects in Panama—or instead require them to leave the country completely.

Business leaders, in particular, are eager to see legislation brought in line with the new public-private partnership rules approved in September 2019. We expect that an updated public procurement law would encourage greater competition and investment. The government has signalled that it wants to encourage small and medium-sized enterprises (SMEs) to bid for public-sector contracts. Officials say that annual public spending on contractors is around US$5bn, and US$280m of that is spent on SMEs. To encourage more of them to take part, they want invoices to be settled more rapidly (30–45 days instead of the current average of around 90 days), and a reduction in bureaucracy and the requirement for onerous financial guarantees. On the latter point, opinions are divided, with some legislators saying that financial guarantees should actually be higher to discourage the type of litigation that has delayed some big projects, such as Line 3 of the metro system in Panama City, the capital.

Impact on the forecast

We expect that the government may struggle to garner sufficient agreement inside the legislature on the precise changes that business leaders are urging. However, we assume that amendments to existing laws will successfully move through the legislature, considering the government's majority. Our forecasts are unchanged as they already incorporate piecemeal business-friendly policies.

Fiscal deficit widens in 2019

February 11, 2020: Fiscal policy outlook

Event

According to the Ministry of Economy and Finance, the non-financial public-sector (NFPS) deficit increased by 13% year on year, to US$2.1bn. As a share of GDP, the NFPS deficit rose to 3.1%, from 2.9% in 2018.

Analysis

It appears that the government, led by Laurentino Cortizo, managed to stem the growth of the NFPS deficit after the deficit widened to 3.6% of GDP in the third quarter of 2019. As a result, the end-year deficit was smaller than the target of 3.5% of GDP that was outlined in the country's adjusted fiscal responsibility law.

After taking office in July 2019, the government pledged to govern by "austerity with efficiency", lamenting the state of the fiscal accounts and estimating that the NFPS deficit would have widened to 4.5% of GDP without adjustments to spending. According to the cumulative year-end data released by the economy and finance ministry, there was a notable reduction in capital expenditure, to US$3.6bn (an estimated 5.3% of GDP), from US$4.3bn in 2018 (a 17% year-on-year decline). Conversely, current spending continued to rise last year, increasing by 5% year on year to US$10.8bn and weighing on the country's fiscal position.

Weak revenue also contributed to a worsening of the NFPS deficit. Given its poor performance throughout the year, the fall in revenue of 3.7% year on year, to US$12.3bn, was unsurprising. Central government revenue (representing two-thirds of the total NFPS revenue) declined by 6%.

The issue of low revenue is structural rather than ephemeral. In fact, the government estimates in its 2020 budget that tax revenue will be 15% lower this year than in 2019. Poor tax collection capabilities hinder the government's ability to shore up public finances and suggest that subsequent improvements in the NFPS balance will be more dependent on spending cuts and cyclical upswings.

Impact on the forecast

Although we still expect that responsible fiscal management will help to improve the NFPS balance over the medium term, as a result of the year-end fiscal data, we will revise our forecasts for the NFPS deficit down and will consider the government more capable of meeting the NFPS deficit ceilings outlined in its fiscal responsibility law. There are moderate downside risks to this forecast, including weaker than expected GDP growth and softer revenue, but the balance of risks has improved, given the government's ability to realise spending controls that led to a narrower than expected NFPS deficit last year.

Analysis

Regional PISA education test results disappoint again

January 10, 2020

Latin America's results in the OECD's latest Programme for International Student Assessment (PISA) report, which was released in December 2019, are fairly negative. All ten participating countries in the region remain in the bottom half of the rankings, and most countries—with the exception of Peru—saw their scores either stagnate or decline, compared with the last PISA report three years ago. There is growing official recognition over the need to raise skills levels in order to attract investment, but weaker economic conditions across the region are likely to have constrained public spending on education. Improving education outcomes in the 2020-24 forecast period will be difficult, owing to the presence of several structural barriers, such as powerful teachers' unions, weak teaching standards, poor national co-ordination, and a significant split between public and private schooling.

The OECD released the results of its 2018 PISA survey in early December 2019. The PISA tests are conducted once every three years and assess the extent to which 15-year-old pupils have acquired the necessary knowledge and skills to participate in modern societies in the 79 participating countries. The PISA assesses skills in three main areas: science, reading and mathematics, with the overall results ordered by the ranking of each country's reading score (the focus of the 2018 PISA assessment).

Survey results yield very few positives

Although Latin America continues to perform poorly in international assessments of education performance, many developed countries have also failed to progress in recent years, implying that the gap between these economies is, at least, not widening further. The 2015 results showed that the OECD average score slipped slightly in each of the three areas; in 2018, the OECD average score rose slightly in mathematics, but fell again in science and reading.

However, this will provide little relief to policymakers in Latin America, who have been seeking to improve education outcomes in recent years. Results in Argentina and Panama changed little from the 2015 survey; Mexico's score for reading worsened by 3 points, offset by slight 1- or 2-point improvements in mathematics and science; while Chile, Uruguay, Costa Rica and Colombia all saw a deterioration in scores in the 2018 survey (particularly marked for Colombia).
The Dominican Republic ranked virtually bottom in the PISA results in 2018; its already poor score for reading dropped sharply. Brazil saw a comparatively small improvement in results of between 3-6 points across the three categories.

Peru is the only country to advance significantly

Building on its performance in 2015, Peru is the only country in the region that registered solid improvements across the board. Its score for reading improved by 3 points, while results for mathematics and science jumped by 13 points and 8 points, respectively. Looking at long-term average trends, Peru registered double-digit improvements, one of the few countries covered in the PISA model to do so. Although this comes from an extremely low base (it was placed last out of the 65 participating countries in the first survey in 2000), the continued improvement is positive. This is likely to reflect the fact that spending on education has risen in recent years (although as a share of GDP, it is not particularly high by regional comparison). A reform of the teaching system in late 2012 improved teacher evaluation and career development, and is likely to continue to have an impact on educational outcomes. School enrolment has also increased and the number of students per teacher has fallen.

Governments will struggle to engender substantial improvements

Looking ahead over the medium term, very few countries will manage to secure concrete improvements in educational outcomes. Although there is growing awareness (amid broad economic weakness in the region) that governments need to tackle structural weaknesses in order to lift performance, long-standing barriers will remain formidable. These include weak institutions, which will make it difficult for authorities to craft and implement changes to the education system, as well as political fragmentation (which complicates efforts to draft and pass reforms). Powerful teachers' unions, weak teaching standards and a significant split between public and private schooling will remain difficult to overcome.

The fact that many governments in the region have been experiencing—and will face the risk of—social unrest, means that these administrations will tread carefully when considering controversial reforms, such as structural changes to the education system. Although volatility makes it more likely that governments will concede increases in education spending—in the absence of deeper and more structural reforms—extra funding is likely to be soaked up by public administration rather than translating into better provision (and thus student proficiency).

Weak prospects for 2021

As a result, we believe that material improvements in underlying PISA scores is unlikely for most countries in the region during the next set of tests in 2021. Many Latin American countries are therefore expected to languish towards the bottom of the rankings. In order to materially boost the region's attractiveness to foreign investors, it will not be sufficient for Latin America to register mild improvements in PISA scores; given the need to catch-up with developed economies, fundamental improvements are necessary in terms of education provision and outcomes, in order to create a highly skilled and productive labour force.

Climate change looms over Panama Canal

January 15, 2020: Long-term outlook

This January marks 20 years since the transfer of the canal from the US to Panamanian sovereignty. Amid the celebrations in Panama, however, officials delivered a word of caution: the canal (and associated ports and logistics), providing around 24% of GDP, faces environmental challenges; it endured its worst ever drought in May of last year. Although risks are lower in the short term, the authorities' capacity to mitigate the long-term effects of climate change will be tested, posing difficulties to the canal's operations, as well as to the wider economy and the public finances.

The Panama Canal—an 82 km waterway with a surface area of 3,300 sq km—links the Atlantic and Pacific oceans. Originally completed in 1914, it was transferred from the US to Panamanian control on December 31st 1999. In 2016 it was widened successfully, allowing it to accommodate larger container ships and tankers. On average, 5-6% of world maritime trade occurs through the canal every year. As a result, the Panama Canal Authority (ACP), which runs the facility, is a sizeable contributor to the Panamanian Treasury; the country's 2020 budget envisages a contribution of US$1.8bn—or 10% of total non-financial public-sector revenue—a record sum.

The looming threat from global warming, however, poses a substantial risk to the country's fiscal accounts and its status as a transport and logistics hub; lower rainfall and higher evaporation rates are leading to a decline in water levels. It is likely that the severe drought recorded last year, which forced the ACP to impose cargo restrictions, was not a one-off event. Although the impact on revenue last year was minimal, it could eventually force a reduction in cargo volumes. Major engineering works might be necessary to mitigate these climate change effects.

Climate risks to the Panama Canal are idiosyncratic

There is a key difference between the Panama Canal and its traditional rival, the Suez Canal. The latter operates entirely at sea level. Ships transiting the Panama Canal, however, move through a rising system of locks and lakes, which take them up above sea level and then back down again on the other side. Critical to the entire operation are two artificial freshwater reservoirs, Lake Gatún (completed in 1913) and Lake Alhajuela (completed 1935), which feed the canal system. Of the two, Gatún is the most important, at about ten times the size of Alhajuela. In normal circumstances rainfall fully tops up both lakes, providing sufficient overflow to feed the operation of the locks, as well as to supply drinking water to the capital, Panama City.

However, rainfall levels have been falling consistently across Panama, owing to climate change. The ACP says that last year rainfall in the canal basin was down by 20% on the historical average. This made 2019 the fifth-driest year in the past seven decades. Compounding the stress on the water supply is a change in water temperature, which in Lake Gatún has increased by 1.5°C in the past ten years, causing increased evaporation. At the same time, the introduction of the new wider locks in 2016 has also increased water outflows.

Adjusting to new realities

As a result of all these factors, the ACP has made adjustments and will continue to adapt to the growing stresses that the canal faces. According the canal authority, in 2019 there were only 3bn cu metres of water in the canal system, well below the desirable level of 5.2bn cu metres. On January 6th the water level at Lake Gatún (the main watersource on higher ground) was measured at 25.72m, about 4% below the norm for this time of year. During 2019's dry season, the ACP had to impose cargo restrictions three times.

On January 13th the ACP announced several measures to account for reduced rainfall and worryingly low levels of water at Lake Gatún: a freshwater fee of US$10,000 for vessels exceeding 125 ft (in addition to a variable fee of between 1% and 10% of the vessel's toll, depending on the time of transit), a reduction of daily reservation slots and a new vessel visit creation fee. These adjustments will complement existing water-saving techniques, such as the decision to get rid of hydraulic assistance at the Panamax Locks.

New restrictions may be needed in the longer term, representing a notable risk to firms that are dependent on the canal. Subsequent restrictions may well require larger ships to cross with less than their full loads, which—in the case of the government—would lead to a reduction in toll revenue. Cognisant of these challenges, officials say that the water deficit could ultimately make the Panama Canal less competitive. Cargo restrictions may lead long-haul shipping companies to switch some of their routes to the Suez Canal. Moreover, given melting polar ice caps, there may also be increased interest in Arctic transits north of Russia or Canada. Although ACP revenue growth has remained firm, the latest data suggest that the Panama Canal transported 451m tonnes of goods last year (representing 3.5% of global trade)—a reduction compared with the 5% share achieved in earlier years—the Ministry of Economy and Finance attributes the lower share to a slowdown in economic growth in Asia, and to tensions caused by US-China trade war.

Adapting to long-term risks

There are a number of potential medium-term solutions to the water deficit. One idea that has been suggested is to connect the reservoir of the Bayano hydroelectric complex into the canal waterway system. Officials have also spoken of a longer-term fix, building a desalination plant on the Atlantic coast to meet demand for drinking water and help to top up canal water levels. Aristides Royo, the canal affairs minister, says that feasibility studies on various options have been commissioned (including studies on creating a new artificial lake), however, unidentified solutions will need to be assessed. In his view, climate change has now become the biggest single challenge facing the ACP.

Although climate change events in the near term may only have a modest impact on canal operations and toll revenue (especially as global trade growth recovers in 2021-24), the long-term risks are daunting and require dramatic changes. On the one hand, the importance of the canal for Panama requires a commitment to mitigate and adapt to future risks. On the other hand, the magnitude of adjustments to make the canal more resilient to longer droughts, warmer waters and lower water levels make this task more difficult than expected. We are confident that the ACP will respond to long-term risks, but it remains to be seen whether their endeavours will be enough to keep the canal competitive.

How will Latin America be affected by coronavirus?

February 5, 2020

- **Although uncertainty persists around the eventual path of the novel coronavirus (2019-nCoV) and its effect on China and the global economy, there is already evidence of an impact on emerging-market financial markets and on commodities. If past experience is a guide, this will transmit rapidly to Latin America and, in particular, to South America's large commodity exporters.**
- **The Economist Intelligence Unit believes that the decline in prices of key commodities for the region, such as oil and copper, will prove transitory, and some recovery based on our provisional baseline scenario for the spread of coronavirus in China would be expected in the second half of 2020.**
- **Even this scenario raises questions as to how much policy space Latin America has to support growth in the face of weaker demand from China and weaker commodity prices in the near term. Most Latin American economies are in monetary easing mode but, looking ahead, currency weakening will complicate policy; space for fiscal stimulus will be even more limited, with a few exceptions.**
- **For now, downward revisions to our GDP growth forecasts are likely to be limited to countries most exposed to commodity prices and to demand from China, including Chile and Peru. However, substantial downside risks to other large economies in the region, including Brazil, Argentina and Colombia, are clear.**

Our China analysts have set out four scenarios for the economic impact of coronavirus. These assess the date by which the outbreak will come under control within China, and range from an optimistic scenario that estimates a controlled outbreak by end-February, to a "nightmare" scenario in which the outbreak is not contained this year. Under the baseline scenario that we provisionally expect to adopt in our next forecasting round, the virus will come under control in

China by end-March, and our 2020 real GDP forecast for China will be revised down, from 5.9% to 5.4%.

China sneezes, Latin America catches a cold

The disruption to China's economy from coronavirus will have direct and indirect impacts on Latin America this year. We expect coronavirus to dampen China's consumption, private investment, and export and import growth, which will have a direct impact on Latin American economies that rely on trade and investment with China to drive growth. Among Latin America's six big economies, this reliance varies dramatically. Mexico's exports to China represent less than 2% of its total; in Peru and Brazil, exports to China account for over 25% of all exports, and in Chile they account for over 33% of the total. However, the direct impact will also depend on how important trade is to these economies, and again this varies substantially among countries. Trade accounts for only around 30% of GDP in Brazil and Argentina; in Peru it accounts for almost 50% of GDP and in Chile it accounts for almost 60% of GDP. On balance, Chile and Peru appear to be most exposed to the direct impact of weaker import demand from China.

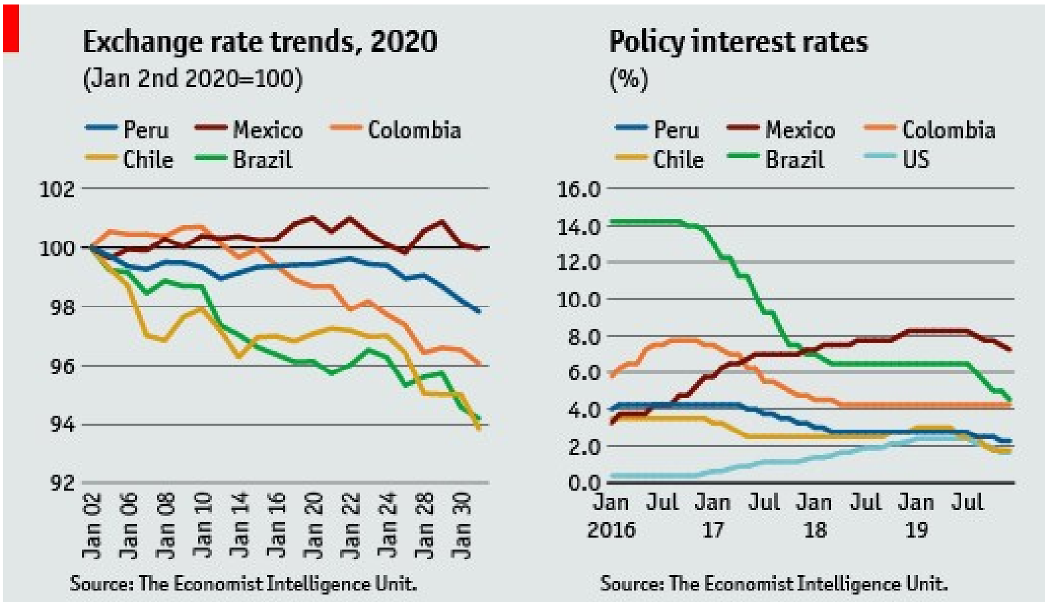
There will be indirect impacts too from commodity prices, exchange rate movements, and the uncertainty effect on business investment both globally and within Latin America. China is a major driver of demand for oil and for hard commodities such as copper, and its major manufacturing export centres are being disrupted by coronavirus. This has been reflected in a substantial drop in oil and copper prices in recent weeks. From their recent mid-January peaks, copper prices have fallen by over 10%. Meanwhile, from its December 2019 peak, Brent crude has fallen by around 15%, or US$10/barrel, to US$55/barrel. This will be damaging for nations like Chile, where copper accounts for a whopping 48% of export earnings; Colombia, where oil accounts for 40% of exports; and Peru, where copper accounts for close to 30% of exports (although the effects will be partly outweighed by gold export earnings; gold accounts for a further 20% of Peru's exports, and prices are high and rising amid a flight to safety).

Brazil has a more diversified export basket than many countries in the region, but still relies on primary commodities for almost half of its exports. A large part of these exports are in the form of soft commodities, which have so far been more resilient than hard commodities in the face of coronavirus concerns (soybean prices fell by around 5% in January). However, iron ore accounts for about 10% of Brazil's exports, and prices tumbled at the start of February as coronavirus concerns ratcheted up.

Weaker currencies and a policy dilemma

Investor fears around Latin America's exposure to weaker Chinese demand and commodity prices are evident in currency movements in recent weeks. There are certainly some domestic factors at play (such as Chile's political turmoil and a fall in the policy rate to record lows in Brazil). However, depreciation pressures have clearly been building since the start of the year (they are in fact more evident in Latin America than in many of China's Asian trading partners), and will at least partly reflect concerns around the region's vulnerability to a weaker global economy and weaker commodity prices in particular. The main exception among the big economies has been Mexico, where the peso has in the past few days weakened only very mildly, following an extended period of strengthening related to the boost from the recent approval in the US Congress of the US-Mexico-Canada Agreement (the successor to the North America Free Trade Agreement). Mexico is much less exposed to China and to commodities than its regional peers. Oil accounts for only slightly more than 5% of export earnings and for less than 5% of fiscal revenue. Trade with China is weak and, in theory, Mexico could see some export increase if US importers seek to adapt their supply chains further away from China (although ultimately, we think that Mexico's prospects will be limited by still sluggish US manufacturing and goods import demand).

For most of the region, currency weakening will complicate the policy response to what will be a poor first quarter. It is clear that there is limited space for fiscal stimulus in most economies in the region. Owing to reforms around the time of Latin America's 2015-16 recession to raise revenue or cut spending, reliance on fiscal revenue from commodities has been lessened in much of the region. However, this does not mean that there is scope for fiscal stimulus. In Brazil, Colombia and Argentina, although fiscal results have been improving, public debt ratios remain high (to varying degrees) and governments are still in consolidation mode. In Mexico, although the public finances appear relatively solid (despite an upward drift in the debt/GDP ratio), the government has little scope to boost spending without scaring investors who are already extremely wary of policy under the president, Andrés Manuel López Obrador. The main exceptions are Chile, and to a lesser extent Peru, where public debt ratios and fiscal deficits are relatively low, providing some scope for fiscal stimulus. Chile has, of course, already committed to a big rise in spending in 2020 in response to the mass public protests of late 2019.



Despite these exceptions, a complicated fiscal picture will place a burden on monetary policy to stimulate the economy. Latin America's many inflation-targetting central banks now have a hard-won reputation for successfully bringing about price stability (and inflation expectations remain well anchored so far). However, depreciation pressures will—to the extent that they persist or intensify—narrow the scope for further monetary easing after sustained rate cuts over the course of 2019. Although we still expect most central banks in the region to remain in cutting mode, reductions will be less steep than in 2019, and will be highly data-dependent. As in 2015-16, there is a risk that Latin American central banks will actually need to undertake procyclical monetary tightening to counter currency pressures (although this is not our baseline forecast). In Peru and Chile, which appear the most exposed to the economic impacts of coronavirus, we expect rates to remain on hold, partly reflecting concerns over the impact of currency weakening pressures on inflation.

A temporary and relatively mild impact, but with large downside risks

Currency and commodity price movements highlight market concerns over the potential impact of coronavirus, and we share these concerns. The big commodity exporters of South America are clearly vulnerable. However, it should be emphasised that—assuming our baseline forecast around the path of coronavirus prove correct—the economic effects will be temporary. After a very weak first quarter, we would expect recovery to gather pace in the second half of 2020, and for pent-up demand to produce a rebound in China's import demand and in commodity prices. This recovery will not be enough to prevent a downgrade to our China forecasts or a downward revision to our 2020 commodity price forecasts. However, it means that in vulnerable economies in the region, such as Chile and Peru, we are unlikely (for now) to make coronavirus-related downward revisions of more than 0.1-0.3 percentage points to our 2020 GDP forecasts. There is, however, a strong risk that these assumptions around the spread of coronavirus ultimately prove too benign, and we will be following events closely in coming weeks.