BBVA | RESEARCH

Economic Outlook

Panama

Fourth Quarter 2012
Economic Analysis

- **Global economic growth will pick up steadily to 3.5% in 2013,** supported by lower risk aversion thanks to the measures taken by central banks, in particular the ECB.
- **Panama will grow by 10.0% in 2012 and 6.6% in 2013.** Execution of public investment will be decisive, combined with the development of private-sector projects.
- **The fiscal balance and external accounts will maintain their trend towards consolidation, but at a slow pace.** The government must search for alternative sources of finance other than privatizations. In addition, foreign capital inflows easily cover the cycle of high investment, and thus reduce the risk of a sudden stop of the current account financing.

Index

Closing date: November 13, 2012

1. Summary

Decisive intervention by central banks in developed countries has limited the possibility of a systemic risk scenario. The ECB has dissipated fears regarding the future of the common currency and forged a path for continued progress toward a new institutional framework. The Federal Reserve's injection of liquidity has anticipated the potential impact of a major fiscal adjustment in the U.S. at the start of next year. To sum up, global uncertainty has receded. In this context, we expect the world economy to continue to recover steadily, with rates of growth of between 3% and 3.5% in 2012 and 2013.

We have revised our growth forecasts for Panama for 2012 to 10.0% and for 2013 to 6.6%. In the first half of 2012 the economy grew by an annual 10.4%, above our expectations. Recent economic indicators maintain a favorable outlook for the country. In addition, the execution of public investment includes planned expenditure of USD 13,500 million through 2014, while private investment will contribute double this amount, mainly in mining/energy and housing projects.

Investment will drive growth, and the contribution from consumption will be positive as well. Investment remains strong, not only from the public budget, but also buoyant private initiative. Household consumption will maintain growth at above GDP in 2012 and 2013 thanks to the positive performance of the labor market. Finally, foreign trade appears to be divided between the goods market, where there are falls in many products, and high growth prospects in services and re-exports.

We expect a lower current-account deficit because the economic activities that are in expansion in Panama are not import-intensive. This is the case with services and construction. At the same time, exports of services have posted strong growth so far this year. We now expect the current-account deficit to be 7.3% of GDP in 2012 and 6.9% in 2012. This deficit is financed through extensive access to international capital markets and credit facilities with multilateral agencies.

Inflationary pressures due to high international cereal prices. The biggest pressure is on foodstuffs and commodities with a cereal component. Other items in the consumer price index were stable, with limited rises. This is directly related to the downward stabilization of oil prices so far this year. According to our estimates, prices will rise an annual 5.3% at the close of 2012, and moderate to an annual 5.0% at the close of 2013.

The expected non-financial public sector deficit will be 2.5% of GDP at the end of this year and 2.8% of GDP in 2013. Increased upward pressure on the fiscal balance will come from investment expenditure, which increased from 4.4% of GDP in the first half of 2011 to 5.1% in the same period in 2012. In contrast, the tax authorities managed to increase revenues by an annual 23.1%. This led to Moody's upgrading government bonds to Baa2 (from Baa3) with a stable outlook. Previously, Standard & Poor's had upgraded them to BBB, while Fitch Ratings confirmed its BBB rating.

In the event of a deepening of the European debt crisis, the main channel through which it will affect Panama will be the lower income from foreign trade and transport services. In this scenario, the government's capacity to react will not be as strong as in 2008, when it had a fiscal surplus of 0.4% of GDP, while now we expect a deficit of 2.5% of GDP. As the financing of public investment projects becomes more difficult, the government should therefore prioritize between projects with a greater economic impact and better access to private capital, and discard those with a lower level of committed private resources.

2. External environment marked by the decisive measures taken by the ECB and the Fed

Bold actions by central banks have clarified the global economic outlook but challenges remain for policy-makers to avoid setbacks

The world economy is expected to continue its soft recovery with a GDP growth rate of 3.5% in 2013 (3.2% in 2012, 4.1% on average in 2010-12). It is supported by lower risk aversion, following the influential decisions taken by central banks, especially the ECB. However, three factors stand out among those that could make this outlook deteriorate significantly: first and most worrying, troubles in Europe, if euro break-up fears that loomed during the first half of the year resurface; second, in the US, the still-hanging threat of the so-called fiscal cliff, i.e., a spending-cut and tax-hike package worth 4% of GDP due to come into effect at the beginning of 2013 that would push the US economy back into recession; third, a severe slowdown in the emerging economies, in particular in China and some commodity-oriented economies, if Chinese appetite for raw materials decreased.

Central bankers to the rescue; other policy makers should follow suit

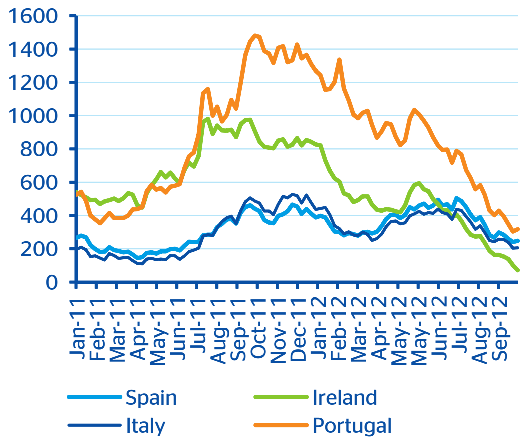
Against a backdrop of high uncertainty and threats to the world economy recovery, over the past months authorities across the world – in particular central bankers in the eurozone and the US – have taken significant steps forward. Those bold measures have spared the world economy from a systemic event that would have been comparable with the financial developments of late 2008. Both central banks have built a bridge to a new institutional environment in the case of Europe, and to a new fiscal pact in the US; these actions have paved the way for other policy makers to use their room for manoeuvre. However, the FED's actions are more open-ended than the ECB's due to different conditionality: strict fiscal fulfillment is compulsory in Europe, whereas labour market improvement is the objective in the US.

"… whatever it takes…"

In our view, when the European Central Bank (ECB) President Mario Draghi announced the implementation of a new bond-purchase program (Outright Monetary Transactions, or OMT) in late July, the institution took a decisive step to put an end to the debt crisis in Europe. Under certain conditions, the ECB could intervene in the secondary sovereign-debt markets. The ECB's move came after a eurozone summit in June where leaders reached some agreements to reinforce the currency union: a broad roadmap towards a single banking supervision, farreaching plans covering fiscal issues and growth-supporting measures. The rationale behind the Draghi announcement is clear. Yields on some peripheral bonds are elevated because markets are partly pricing in eurozone break-up fears, compromising the ECB's mandate amid a severe financial fragmentation.

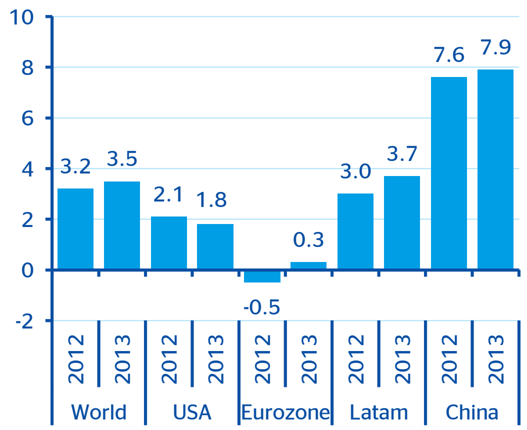
The ECB move was more decisive than anticipated. We consider that break-up fears are not justified now as long as this process continues. Tensions in financial markets have eased significantly since June (see Chart 1) and, in our view, the maintenance of this situation in spite of recent adverse market events is proof of its capacity to dispel doubts.

Chart 1
Financial Stress Index for Eurozone countries[1]



Source: BBVA Research

Chart 2
GDP growth rate (%)



Source: BBVA Research and Haver

At the end of the process, we think the eurozone may eventually come up with a full package that will reinforce its governance. As we have long argued, it should comprise a banking union, a fiscal union and a lender of last resort to prevent fragmentation. Progress has been made on all of these fronts. Probably that progress has not been ambitious enough to revert the current dynamic quickly. Yet, policy makers seem committed enough to the process and we think the worst of the crisis may, at last, be over. In the short term, the ECB's program and the ESM support under fiscal conditionality creates a benchmark to deal with difficult funding situations that countries such as Italy and Spain could face. At the same time, the proper implementation of the banking-union plans and further definition of the fiscal-union design will be a key factor to the long-term sustainability of the eurozone.

"... as long as needed..."

The US economy is still growing, but at historically low rates and the unemployment rate remaining persistently high. This is the result of a still high indebtment that should keep on reducing, but also of the uncertain external environment regarding the final resolution of the euro crisis and, from a domestic perspective, of the lack of agreements about how to reduce the high public debt while avoiding the automatic income and expense adjustment that is coming closer by the day (fiscal cliff).

Against this backdrop, the Fed additionally eased the monetary policy in its September meeting. It announced that it intends to keep rates at its current low levels at least until mid-2015, a year over what was previously declared. But to support the improvement of the job market's expectation, it also announced a new round of quantitative easing (QE) through the purchase of mortgage backed securities (MBS) in an attempt to improve financial conditions for households. With this, the Fed is buying insurance against the "fiscal cliff," that in our baseline scenario we expect not to fully happen.

The potential effects of QE3 are not restricted to the US economy. As previous programmes showed, they prompt inflows to emerging economies, decreasing risk premia, and lowering funding costs in those countries, boosting the availability of credit, their growth rates and also their inflation.

1: The Financial Stress Index (FSI) is a synthetic indicator of: risk measures (5-year CDS, CDS of non-financial corporations and financial debt), volatility (stocks, interest rates and exchange rates) and liquidity stress (3-month spread between interbank and risk-free asset).

Central bankers' responses are not enough to bring the global economy back to a firm expansion

The world economy may have avoided decelerating to the slowest growth in the last 30 years (apart from the 2009 great recession) but the low growth environment continues. The advanced economies have been losing momentum since 2011 as one should expect given the current deleveraging environment. More recently the emerging economies have been hit too, though in some important cases, as Brazil and China, recent data shows that activity is stabilizing.

However, the actions that have been taken by central banks in the US and in the eurozone are partly dispelling some doubts and improving the outlook. Under our baseline scenario, growth in the eurozone is likely to gain momentum entering 2013. Although the eurozone's GDP will decrease in 2012 (-0.5%), it will rebound slightly in 2013 (+0.3%). In the US, we have maintained our forecasts: growth will remain at around 2% in 2012 and 2013. The main downward revision in our October scenario corresponds to China (by -0.2 pp in 2012 and -0.4 pp in 2013), although its growth rate will remain close to 8% both years due to expected policy stimulus to compensate partially the slowdown it is experiencing (see Chart 2).

All in all, the world economy is expected to continue undergoing a soft recovery with a GDP growth between 3% and 3.5%. Yet this scenario relies on several key assumptions, in particular on whether European policy makers will deliver on their commitments. First, this scenario assumes that the recent wrangling over financial supervision does not substantially affect June's agreements, so the vicious link between sovereign and bank risk is broken and the monetary policy transmission, which in the eurozone is conducted mainly by banks, works again. Second, we assume that the mechanism in place to eliminate the "convertibility risks" is activated in full if needed. This will keep yields in peripheral economies contained, but substantial reductions will happen at the same time as Europe progresses in its new institutional arrangement and the commitments are fulfilled Finally, in this scenario, Greece will continue being part of the euro, which will, in turn, require further support from Europe by additional funding and/or a longer period to fulfill fiscal conditionality. Based on past experience, too many things could still go wrong, but policy makers tend to find solutions to Europe's problems when crunch time approaches.

3. The outlook for Panama remains buoyant

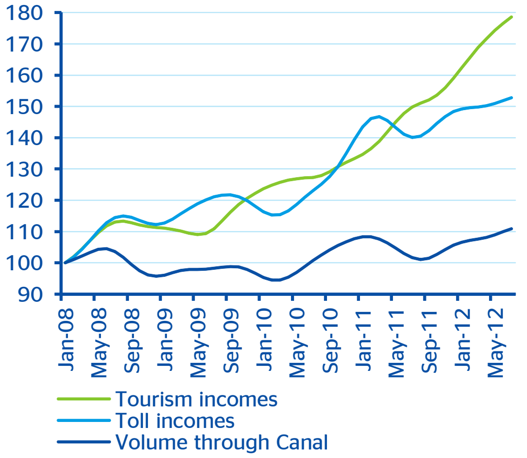
We have revised our growth forecasts for 2012 to 10.0% and for 2013 to 6.6%

In the first half of 2012 the economy of Panama grew by an annual 10.4%, despite global turmoil. The performance was boosted by good results in the transport, warehousing and communications and construction sectors. In the case of transport, the channels of expansion were the services associated with the Canal, including transport and warehousing, infrastructure investment and aeronautical equipment. In construction, public infrastructure plans had the biggest impact, and offset the more sluggish performance of private building.

Recent economic indicators maintain a favorable outlook for the country. Results in freight and export services, focused at the Panama Canal and the Colon Free Trade Zone, have been outstanding. Growth of freight transported by the Canal rose from an annual rate of 2.3% between January and June to an annual 11.7% in July. At the same time, tourism became a major source of currency generation, with growth of close to 7% in the number of visitors and 20% in spending by visitors in the country (Chart 3).

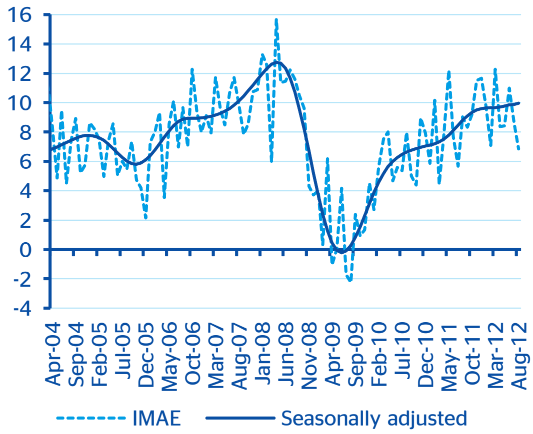
The Monthly Economic Activity Index (IMAE) gives an overview of this positive outlook. With data through August, the index anticipates expansion in the Panamanian economy of 9.4% in the first eight months of 2012. Construction and transport will continue to drive growth, but other sectors are also performing outstandingly, such as mining (although its share of GDP is low) and tourism services (Chart 4).

Chart 3
Freight transported, tolls and income from tourism (Annual % change)



Source: INEC, GlobalSource and BBVA Research

Chart 4
IMAE (Annual % Change)



Source: INEC and BBVA Research

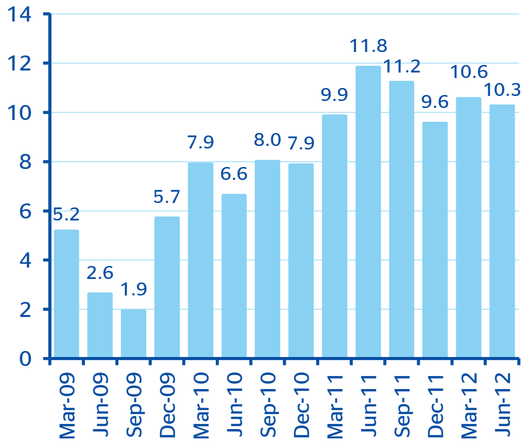
A faster pace of execution of public investment will be decisive in maintaining economic expansion in Panama over the coming years. If this is to happen, progress on the main projects underway in the country has to be guaranteed. They include the third set of locks in the Canal extension, the Panama City metro, the improvement of road infrastructure, the sanitation project for Panama Bay and the development of the most important ports in the country.

Public investment budget is estimated at USD 13,500 million through 2014. However, progress on some government projects appears uncertain: these include the Government Tower, the Financial Tower and the connections between Howard and the Centenary Bridge and Tocumen and the freight terminal. The lower level of execution will lead to an adjustment in the Panamanian economy over the coming years to more sustainable rates of growth that are closer to potential.

However, expansion will be supported by private sector investment and the high rates of foreign trade flows needed by the Latin American economies. The private sector has specific projects underway in sectors such as mining, logistics, electrical power and hotel developments. Their value will be almost double that of the government infrastructure initiatives. At the same time, foreign trade will be associated with greater freight flows through the Canal, supported by growing domestic demand from most of the South American countries and Mexico. Thus the expected slowdown will be moderate, as long as private and foreign expenditure remain strong.

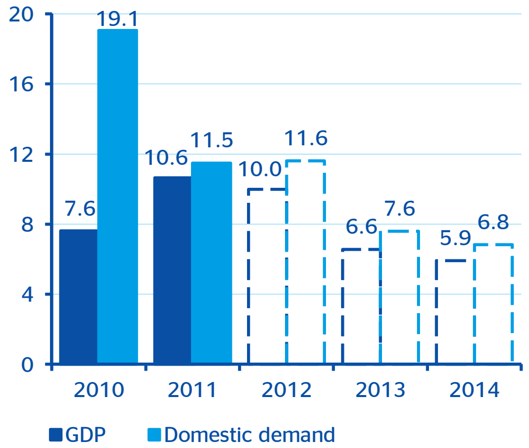
Given these indicators, we have revised our growth forecast for 2012 from 8% to 10% and for 2013 from 6.8% to 6.6% (Charts 5 and 6). This forecast is based on the positive surprises in the transport and tourism sectors in the first half of the year, combined with an acceptable pace of work on the main public infrastructure projects. The expected rate for 2013 is based on the lower room for growth in sectors that led expansion in 2012 and a rate of execution of public works that is below planned, although this will be partially offset by private sector mining/energy and housing projects.

Chart 5
Total GDP (Annual % change)



Source: INEC and BBVA Research

Chart 6
GDP forecasts and domestic demand (Annual % change)



Source: INEC and BBVA Research

On the demand side, given the lack of official figures since 2010, we have to interpret sector trends to calculate consumer, investment and foreign trade trends. First, growth of the retail trade sector has been below GDP because of weaker household spending on goods, although there has been some upward pressure from the significant upturn in spending on services. In contrast, investment remains dynamic, not only because of the public investment, but also because of the high level of private initiatives. Finally, foreign trade seems divided between goods market, with falls in many products, and growth and good prospects for the future in services and re-exports to Latin America, in particular Peru and Colombia.

Household consumption could maintain growth at above GDP in 2012 and 2013 thanks to the positive performance of the labor market. The unemployment rate will have hit 4.3% in August this year, a fall from the 4.5% rate in the same month in 2011. This will have a positive impact on the poverty indicators, which will fall under 26%, and the informality rate, which is more inflexible and still above 40%. At the same time, the Manpower surveys of employment prospects remain optimistic.

The greatest uncertainty at present in fourth quarter growth is the size of the negative impact of strikes in October. The activities that had been driving activity, such as transport, logistics, tourism and construction, could be affected by the difficulties caused by the strikes to mobility of people, goods and vehicles in Panama City, the Canal and the Colon Free Trade Zone.

Current account deficit shrinks a little due to slowing imports

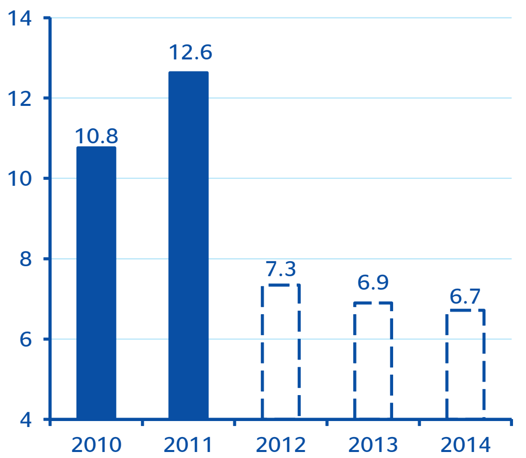
The economic activities that are growing in Panama are not import-intensive. This is the case of services and construction, which demand mainly labor force and internal logistics, as well as local cement production that cushions the net import position of this material. In contrast, sectors such as retail trade, agriculture and industry have moderated their growth, and thus slowed imports of durable and non-durable consumer goods (retail trade), cereals and animals foodstuffs (agriculture) and capital goods (manufacturing industry). In fact, imports only increased by an annual 10.4% between January and June 2012, compared with 22.5% in the same period in 2011. In contrast, services exports have grown strongly so far this year, as we showed in the figures for freight transport, and the sale of marine fuel from the Panama Canal bunker was up 4% between January and August 2012.

Another significant event is the entry into force of the Free Trade Agreement with the United States in October this year. The agreement will boost exports over the coming years. The United States is Panama's main trading partner, accounting for 30% of exports and 28% of imports (average for the period 2006-2010).

Based on these indicators we have revised down the current-account deficit for 2012 from 11.6% to 7.3% of GDP and for 2013 from 10.5% to 6.9% (Chart 7). The high deficit is due to the current cycle of investment growth, which is compensated by its extensive access to international capital markets and the finance for the main infrastructure projects through multinational agencies.

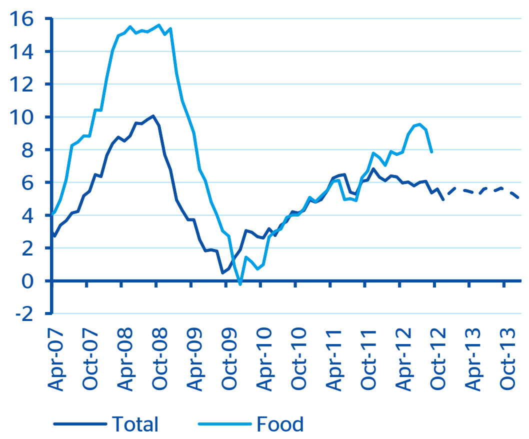
However, in the long term, the authorities must be alert to the moment when global liquidity shrinks, which could limit external funds of Panamanian banks and reduce the current financial account slack. Foreign direct investment is now growing mainly through the reinvestment of profits, at 42% of the total. At a time when the installed capacity of foreign companies based in Panama is being increased, dividend transfers abroad will probably increase and put pressure on the factor income account deficit.

Chart 7
Current-account deficit (As percentage of GDP)



Source: INEC and BBVA Research

Chart 8
Food prices and headline inflation with forecasts (Annual % change)



Source: INEC and BBVA Research

4. Inflationary pressures from high international cereal prices and lax monetary policy in the United States

Inflation to October this year stood at an annual 5.3%. This represents a slowdown with respect to the value observed in December (annual 6.3%). Higher international cereal prices led to greater inflationary pressure in food and commodities with a cereal component. This will determine the price of some livestock products that are based on cereal feed, such as chicken (eggs), beef (cheese and milk) and pork, and result in high monthly inflation rates, at least until the first half of 2013. At the same time, additional pressure from the high liquidity level in the United States cannot be ruled out, above all in tradable goods.

The other items in the consumer price index were stable and low, except for home furnishings and health (which only account for 13.1% of the total basket). In part, these other items offset the high inflation in food and beverages (an annual 7.2% in October). In particular, inflation rates for housing (which refers to public services and rental) rose from an annual 1.3% to 3.3% in October, while that for transport fell from 11.8% to 6.3% in the same period. This is directly related to the downward stabilization of oil prices over the year, resulting in a fall of inflation in all the items that include fuel, such as domestic gas and gasoline.

Despite the influence of foodstuffs on the rise (32% of the CPI basket) to April 2013, reduced pressure from the other items in the basket (55% of the total) and the global fall in the price of cereals will lead to a fall in inflation. According to our estimates, prices will rise an annual 5.3% at the end of 2012, and moderate to an annual 5.0% at the close of 2013 (Chart 8).

The rise in housing prices has remained limited (actually negative in 2009-2010), as demand for property from visitors and foreign residents has fallen off in recent years. Although the major growth of the Panamanian economy in 2012 would have boosted this indicator, it is still below the levels of 2006 and 2007.

Domestic demand will reduce pressure on inflation in 2013, as it falls from an annual growth rate of 11.6% in 2012 to 7.6% in 2013. This is still above the level of GDP because of the fiscal boost. This is reflected in credit, which stabilized at annual rates of growth of 14%, compared with a figure of 19.8% in mid-2011. The slowdown was similar in both the domestic and external portfolio, with a relatively stable proportion of each in 2011 and 2013. The share of the domestic portfolio remained steady within a range of between 70% and 72%.

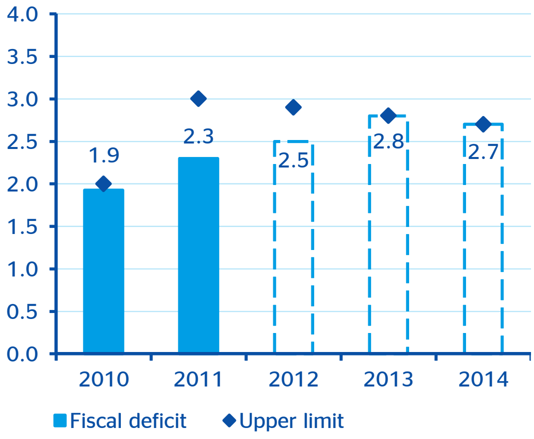
The component of credit that slowed most was corporate lending, which fell from an annual growth rate of 27.8% in July 2011 to around 22.7% in August 2012. In contrast, the household portfolio, including mortgage lending and consumer finance, gathered pace slightly over the same period. The quality of loans is still healthy, as only 0.7% of the balance in the banking system is past due (NPL ratio), a level that is just over half the average of the indicator since 2005 (annual 1.3%).

5. Threats to the fiscal balance remain

In the first half of 2012 the non-financial public sector (NFPS) had a deficit of 1.2% of GDP, down on the figure of 1.4% in the same period in 2011. The improvement is a result of the annual increase of 16.3% in the current income of central government (CG), which was not offset by an annual increase of 11.7% in current expenditure. The increased upward pressure was manifested in increased investment expenditure, which rose from 4.4% of GDP in the first half of 2011 to 5.1% in the same period in 2012. At the same time, the government's current savings increased by an annual 19.2%, which helped finance part of the investment plan (74% of the total) and cut the demand for additional public debt.

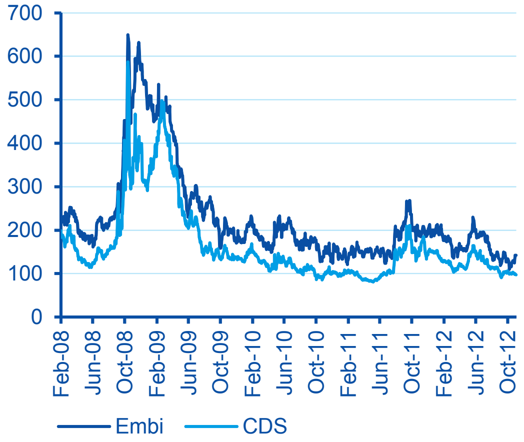
The work of the tax administration was key to increasing tax revenues by an annual 23.1% through the entry into operation of tax printers as the main form of invoicing in the country, as well as the creation of a Large Taxpayers unit. This positive outlook means we were able to revise down the expected NFPS deficit to 2.5% of GDP this year and 2.8% in 2013. In these two years, it will in any event be below or in line with the ceiling set under the Fiscal Responsibility Law updated in June (Chart 9).

Chart 9
Non-financial public sector deficit
(As percentage of GDP)



Source: Ministry of Economy and Finance and BBVA Research

Chart 10
Risk premium of the
Panamanian economy (Basis points)



Source: Bloomberg and BBVA Research

An additional positive element was upgrade of Moody's rating of government bonds to Baa2 (from Baa3) with a stable outlook. The outlook is based on the importance of Panama as a global logistical center and the fiscal benefits of the new massive iron ore and copper extraction project. In addition, Moody's highlighted the reduction of the public debt from 70% of GDP in 2004 to under 40% in 2012. Previously, Standard & Poor's had upgraded its rating to BBB, while Fitch Ratings confirmed its BBB. Panama was also removed from the OECD list of tax havens in April. This and the ratings news led to a reduction of risk premiums (Chart 10).

However, it should be noted that the Panamanian economy's capacity for saving was restricted by the increased deficit ceiling approved by the National Assembly in mid-2012 (see Box), which limited fiscal discipline. In addition, the fact that Panama will not have as high a rate of growth in the upcoming years could increase fiscal pressure if revenues fall, as has been anticipated by our increased deficit forecast for 2013 compared with 2012. This is partly explained by the inertia of infrastructure investments, despite lower economic growth.

Box. The financing of the 2013 budget and the possibility of fiscal savings

The government's budget for Panama for the tax year 2013 is USD 16,284 million, an increase of 12.6% on the figure approved for 2012. The 2013 budget is divided into USD 7,574 million in operating expenditure and USD 6,947 in investment expenditure. According to the government, the calculations for the budget were based on economic growth of 8% and under the Fiscal Responsibility Law that established the deficit ceiling. Thus if growth is as forecast by BBVA Research (6.6%) there will be upward pressure on the government's fiscal target.

Ricardo Martinelli's national government's priorities are reflected in the budget distribution, which is focused on institutions most involved with the administration's main objectives. The ministries with the biggest allocations will be the Ministry of the Presidency, at USD 1,463 million, of which USD 1,381 million are earmarked exclusively for investment (the first line of the Panama City metro, public markets and the Cold Chain). Next comes the Ministry of Education, with USD 1,471 million. It aims to continue with the Universal Scholarship, food and nutrition programs.

Completing the list are the Ministry of Health, with USD 1,512 million and the Ministry of Public Works, with USD 730 million. In the Ministry of Public Works, USD 698 million are earmarked exclusively for projects such as the construction of the Soná Boulevard in Veraguas and the completion of the Divisa-Chitré-Las Tablas highway.

Revenues are divided by institutional groups. Decentralized institutions, government-owned companies, financial intermediaries and the central government will have funds of USD 4,831, USD 1,109, USD 2,379 and USD 9,561 million, respectively. Central government will also have tax revenues of USD 4,832 million, 50.7% of total CG revenue and a rise of 3% on the estimates for 2012, in addition to capital income of USD 2,576 million. Capital income includes the sale of national assets such as the Figali Convention Center, the concession for the port of Corozal and part of the Colon Free Trade Zone.

The biggest challenge faced by the government will be to privatize assets, particularly given that in recent months the implementation of this policy has not been successful. Law 52 reformed the tax code in the middle of this year, and aimed to make up for the shortcomings in budget revenues due to the impossibility of privatizing some energy and telephony companies. These revenues aimed to offset the sale of electrical equipment and the retroactive nature of some taxes against the elimination of the monthly advance on income tax (AMIR), the re-establishment of estimated tax returns, and the selective consumer tax (ISC). The assets became even more difficult to sell following the repeal of the law allowing the sale of land in the Colon Free Trade Zone, following major social unrest.

At the same time, in the medium term the economy of Panama must test its capacity for savings through the creation of the Panama Savings Fund with an initial capital of USD 1,300 million. Future contributions will come from Canal revenues, which according to official forecasts could amount to around USD 30,000 between 2015 and 2025. Funds can only be drawn out of the Fund in case of a natural emergency whose cost is equivalent to 0.5% of GDP or more, when real GDP growth is 2% or lower over three quarters, or if they are used to pay the public debt, provided that the value of the Fund is greater than 5% of GDP the previous year.

6. Economic policy less able to address a worsening global situation

If the European debt crisis depends, with considerable effects on other developed economies, the main channel for transmission to Panama will be the lower income from foreign trade services, transport, marine fuel and warehousing. These sectors are currently heading GDP growth. In this scenario, there could also be a shock to household and business confidence, which will slightly restrict their consumption and investment plans. However, the chance of an event such as this is far lower than three months ago, thanks to action by the central banks, particularly the ECB, as we pointed out above.

In any event, if this low-probability scenario occurs, Panama's investment plan would limit the effect on economic growth, leaving it in positive territory. However, the government's capacity to react will not be as great as in 2008, when it had a fiscal surplus of 0.4% of GDP, while today we expect a deficit of 2.5% of GDP. As the financing of public investment projects becomes more difficult, the government should therefore prioritize between projects with a greater economic impact and better access to private capital, and discard those with a lower level of committed private resources.

This is particularly true given that government revenues will not only be reduced by lower current taxes from more moderate domestic activity, but also by lower capital contributions made by companies in the mixed economy. Among these, the Panama Canal will reduce payments due to lower toll revenues as global trade falls.

In this scenario, a reduction in foreign direct investment is highly probable, although again it will have a more limited effect given the major infrastructure, mining and energy projects that have foreign funds committed in the medium term. In any event, the current account will have to close below the 7% of GDP we expect as the core scenario for 2013. This adjustment in the deficit will have an additional negative effect on domestic demand, and reinforce the initial shock to confidence.

7. Tables

Table 1
Annual macroeconomic forecasts

	2010	2011	2012	2013
GDP (y/y %)	7.6	10.6	10.0	6.6
Private consumption (y/y %)	24.4	12.5	11.0	7.0
Public consumption (y/y %)	12.2	4.5	5.0	5.0
Fixed investment (y/y %)	11.6	12.5	16.0	10.0
Inflation (y/y % EoP)	4.9	6.3	5.3	5.0
Exchange rate (vs. USD, EoP)	1.0	1.0	1.0	1.0
Interest rate (%, EoP)	2.1	1.4	1.5	1.7
Fiscal balance (% GDP)	-1.9	-2.3	-2.5	-2.8
Current account (% GDP)	-10.8	-12.6	-7.3	-6.9

Source: Ministry of Economy and Finance, INEC, Superintendency of Banks and BBVA Research Colombia

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