



Update from Panama May 2022

I expected to post this at least a week ago, but I held off. In today's messy world, you never know when something is going to cause a major problem that requires rethinking of everything. Covid did that over time and, very suddenly, the war in Europe forcefully reminded all of this of that simple fact. But now is a good time to write, so here it is!

As you will see below, we have ridden a roller coaster but came out of it stronger than when we went into it.

Panama in 5 charts

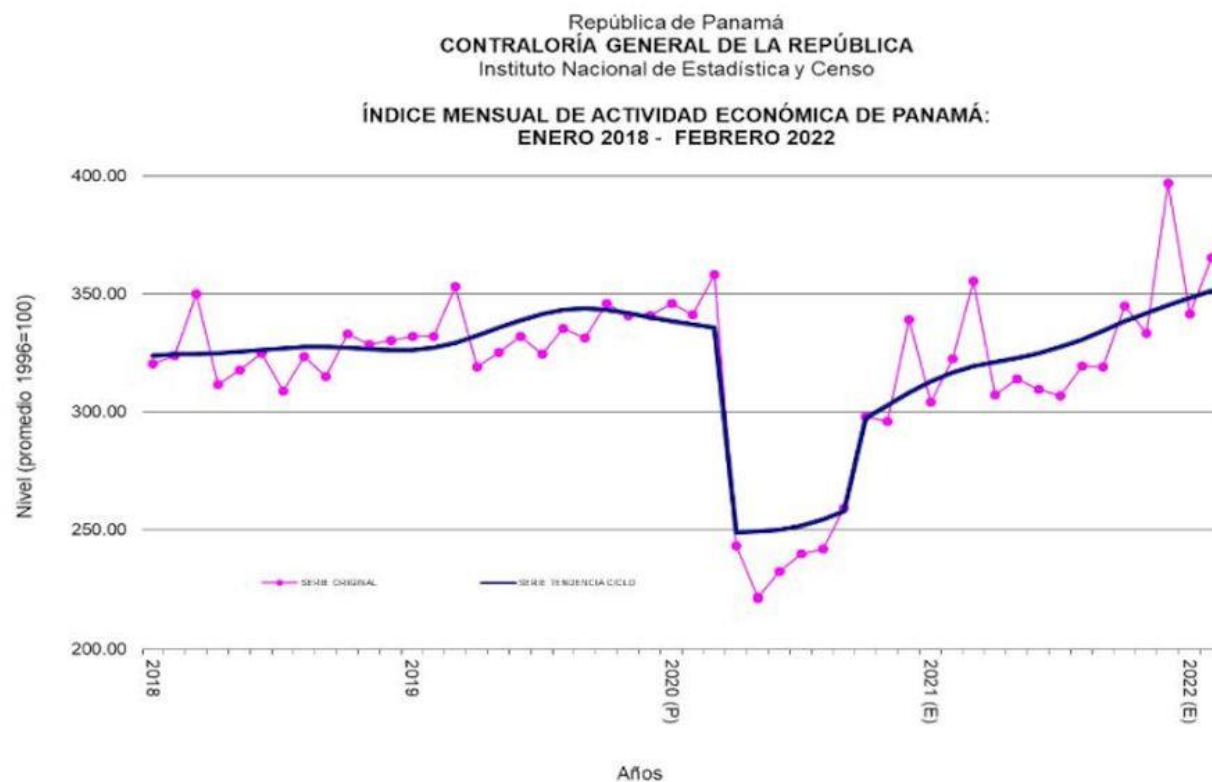
When Panama's GDP results were reported for 2020, they looked terrible. Panama's GDP had fallen 17.9% below 2019. In early 2021, the general opinion of the Panamanian government and local economists was a growth rate of 4 to 5% for that year. The first agency to predict double-digit growth in 2021 was the International Monetary Fund which surprised everyone when it predicted 12% growth. Locally, people simply could not believe such a dramatic recovery was possible, but when the results were in, Panama had scored a 15.3% growth rate for 2021.

As 2022 began, the predictions and estimates began again too. It was widely assumed that Panama's GDP growth rate would slow to 5% and the economy would not return to its 2019 level (a record for the nation at the time) until 2023, or even 2024.

So how are we doing? We won't have first-quarter GDP figures for at least a month, but we do have the results of the IMAE (Monthly Indicator of Economic Activity in English) for the first two months of 2022. You can see them further below. The pink dots are the monthly results. The blue line is the trendline which is considered more reliable.

Although not the GDP, the IMAE is similar. While the GDP figures include all economic activity, the IMAE focuses on the sectors where statistics are easier and faster to collect and which represent the majority of economic activity. It provides a very good indicator of the GDP's direction and is released more frequently. Here it is, as of the end of February.

Source



Source - [Instituto Nacional de Estadística y Censo](https://inec.gob.pa/)

By this measure, Panama has already passed 2019 and set a new record IMAE result. Okay, no one has a crystal ball, but I am not worried. This could be a record-breaking year for us, and that has been predicted by others. Their argument is well-made, but I wait until the second half of any year before feeling really comfortable.

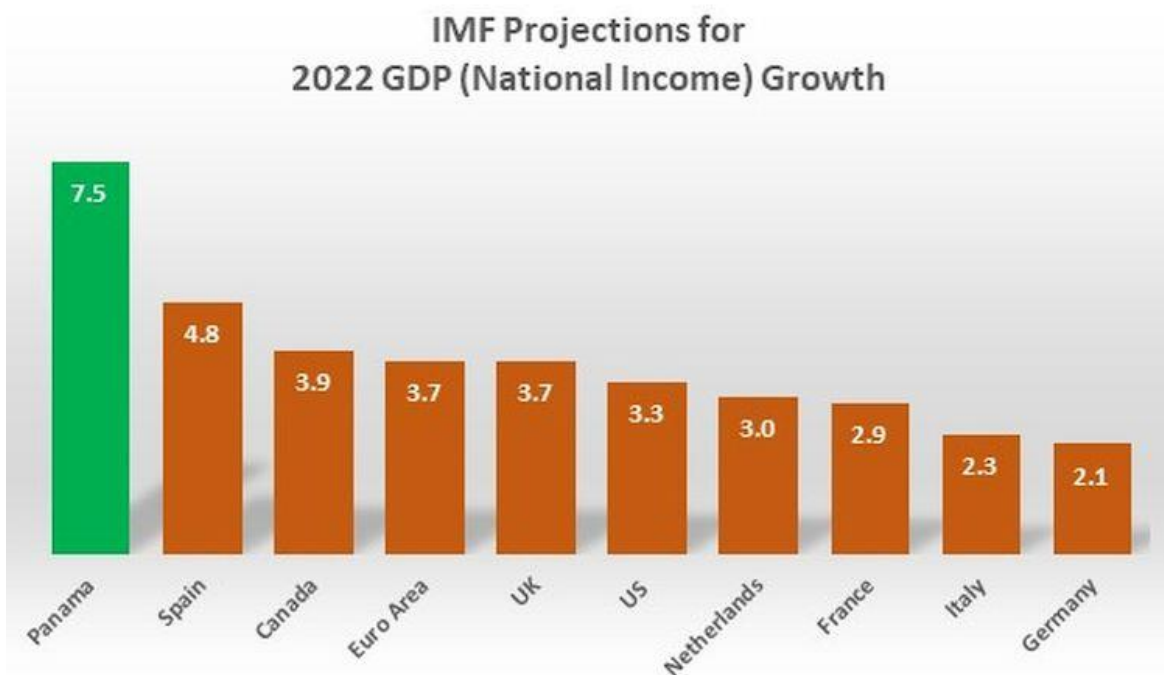
But what about the one professional outfit that made the best prediction last year? What about the IMF? What does it say about this year?

Here are IMF forecasts for 2022 for a variety of Latin American nations, including Panama's neighbors, the two "powerhouses" (Mexico and Brazil), and others with whom Panama is often compared.



Source - [IMF World Economic Outlook - April 2022](#)

But what about the rest of the world, the “advanced” economies of North America and Europe?



Source - [IMF World Economic Outlook - April 2022](#)

Let me share one more set of statistics that demonstrate the results of nearly two decades of high growth. I refer to GDP as “national income” for those not familiar with the term, Gross Domestic Product.

GDP (National Income) 2022
Per Capita (PPP) in US \$

Panama	36,085
Chile	28,526
Uruguay	26,663
Costa Rica	24,490
Dominican Republic	23,983
Mexico	22,216
Colombia	18,225
Brazil	17,208
Peru	15,035
Ecuador	12,664

Source - [*IMF World Economic Outlook Database - April 2022*](#)

Statistics can help us understand the real world. But interpretation is critical. I could provide one, but for that, I again return to the IMF. No one has more experience dealing with nations all over the world, and certainly in Latin America, who are in serious financial trouble, not just for years but even decades.

No major international finance agency is disliked as much by the nations who come looking for money at low-interest rates and on easy terms compared to what any private funder would provide than the International Monetary Fund. They are disliked because they require the applicant to practice the national self-discipline to live within their means.

That is the trap. If the nation’s leadership had shown that level of self-discipline, they would not be in the trouble they are in. If the will to change is not there, the IMF cannot force it.

I imagine one problem the IMF staff often face is the question, “Show us where it works!” That is a tough challenge. Latin American nations, Panama included, have

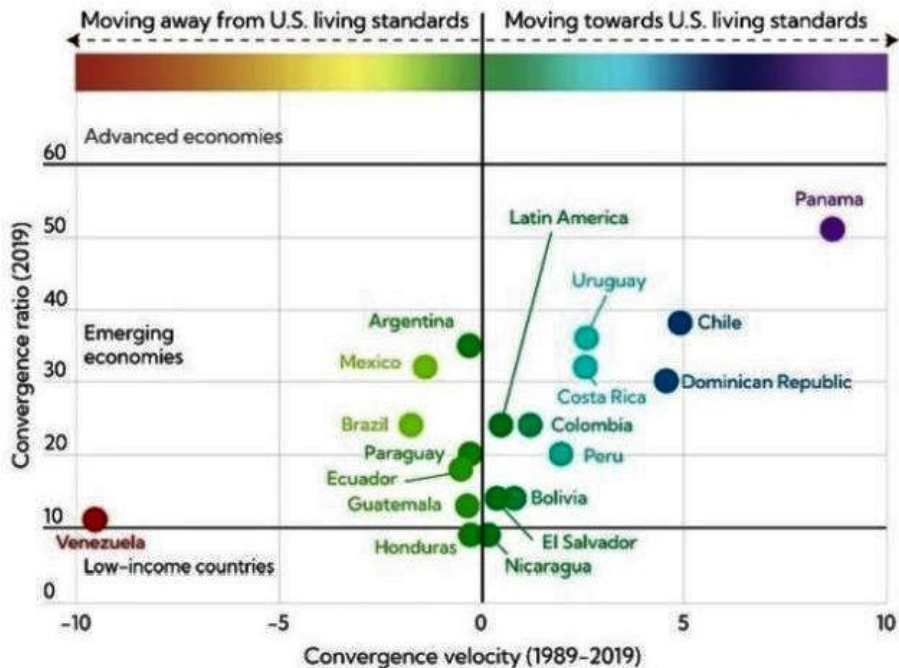
passed through difficult days when the leadership was incompetent or corrupt. That is not a Latin American problem, it is a human problem, but this is our region and that is where we look for examples.

The IMF now has an example. I have never read such a positive report on a small nation from the IMF. The chart below may surprise you too, but you need to read the story from one of the three links below. It is not a long story, but it is better than a book. You can read it and understand it in minutes, not hours or days. They provide it in English, Spanish, and Portuguese below.

Struggling to catch up

It could take centuries for countries to reach U.S. living standards at the speed they're converging. Panama is a notable exception.

(average change in convergence ratios per decade, 1989–2019, percentage points)



Source: World Economic Outlook.
 Note: Convergence ratio is in percent of US real per capita GDP, PPP. Convergence velocity is the average change in convergence ratios per decade in percentage points.

IMF

Source: [The Different Shades of Latin America's Economic Convergence](#) {English}

Source: [Los diferentes matices de la convergencia económica en América Latina](#) {Español}

Source: [Os vários tons da convergência econômica da América Latina](#) {Português}

But the best news is not a statistic, estimate, or prediction. It is a reality. All of us in Panama, citizens and permanent residents alike, came through the pandemic without a single riot, without the destruction of private or public property, without mobs screaming obscenities at each other, without starving families, and no injuries and no deaths resulting from violent confrontations with the police or anyone else. Why?

Panama is a democracy and a very active one. Anyone who lives here as a true resident, not a “residential tourist” living on the surface, knows this. But when we face an enemy from outside, a mindless virus for example, we face it as one people. A plan is developed with input from all sectors of society and shared. The foreign enemy was a virus. The public cooperation and support for the response were critical to our success.

Panamanians have a bright future and they know it, deep down inside. The 21st century has seen spectacular growth not only in Panama’s economy, but in its self-image. Panamanians are proud of what they have accomplished and for good reason. They will not let a virus kill their spirit or their unity, much less their people.

So, Bob, everything is perfect in Panama?

Of course not! There are at least two threats we have to constantly survey.

There is Covid. A virus is mindless. It has no brain, no nervous system, and doesn’t need them. It does what it is meant to do and nothing more. It remains a very dangerous enemy and we cannot ignore it.

Now there is the war in Europe, a tragedy for everyone. It has very little impact on the Panama Canal. Europe is serviced primarily by the Suez Canal. But it can upset global trade if it becomes long-term and cause us problems as well.

At the moment, the virus is relatively quiet and the Canal is doing extremely well. We hope it stays that way, but no one can promise anything in the face of a virus or a war.

There are also imbalances economically. Major institutions, the Canal, the Colon Free Trade Zone, and Minera Panama copper mine on the Atlantic coast have all done well and are much of the reason Panama’s economy has rebounded so quickly. But two sectors have suffered. They employ tens of thousands of workers, many of whom are waiting to be called back to work.

The hospitality sector (hotels, restaurants, tourist sites, etc.) is really in poor shape. We need to get more people down here. In the long run, we are going to do that. The new

convention center is a hit and doing its job well. In addition to the Bloomberg New Economy conference this month, there are others right behind it ranging from the sixth [Latin American Blockchain conference](#) to next year's [World Robotic Olympics](#) where some 5,000 delegates will be showing off their work and having fun, and there will be more. In the meantime, hotels are cheap. They won't stay that way as things pick up. *Keep that in mind.*

Another area is real estate, specifically residential real estate. As you know, we have a surplus. We are truly a "buyer's market". Panama is coming back to life. It is never as fast we want, but it is happening, there is no doubt, and the charts above demonstrate it, but construction of new housing has stalled, despite a need in some parts of the nation.

As we will remind each other in a few minutes as I bring this to an end, there are many paths and we cannot guarantee which one will face us tomorrow, much less a year or a decade from tomorrow. But I believe that it will be a very long time before we have a better "buyer's market" or "renter's market" than we have today. *Keep that in mind.*

There is a word for this. Momentum. Those charts above? They are the results of two decades of progress that no one had predicted in advance. Panama has built up significant momentum beyond anyone else in the Americas, North or South.

The business, financial, and professional communities are very much aware of this and the fourth [Bloomberg New Economy Gateway](#) conference starting this week is a clear sign of that. This is the first time Bloomberg has held its New Economy Gateway outside Asia and they chose Panama City for that honor. It is a powerful statement in action, not just words.

There is more to come and I look forward to it! I would not want to be anywhere other than where I am right now, writing to you. Panama. Thank you once again for your friendship and many kind messages.

And now most of you know what comes next. I will end with the same words I have used in every report I have sent out in the last 18 years.

"No one knows the future. Free markets go up and free markets go down. The future is not a simple extrapolation of the present. Anything can happen. Everyone has an opinion and those words above are just opinions."

Bob