



Report from Panama 1 November 2023

Renault: I've often speculated on why you don't return to America. Did you abscond with the church funds? Did you run off with a Senator's wife? I like to think that you killed a man. It's the romantic in me.

Rick: It's a combination of all three.

Renault: And what in heaven's name brought you to Casablanca?

Rick: My health. I came to Casablanca for the waters.

Renault: The waters? What waters? We're in the desert.

Rick: I was misinformed.

From the 1942 classic, Casablanca, a few words shared between Rick Blaine (Humphrey Bogart) and Captain Louis Renault (Claude Rains)

It is not always an easy job...no, that is wrong. It is *never* an easy job to share a blurry photograph of a nation's development that is just one frame of a never-ending video. And yet, here I am once again, hoping to share something useful, something interesting, something that has not been said a thousand times before about Panama. I wish I was Rick and could sum it up that quickly and amusingly!

Panama is like *every other nation* on Planet Earth. It is a "developing nation". That is not a positive or a negative statement. That is not a political statement. It is simple. It means that everything changes all of the time. It is a human statement.

Change will continue and the probability is high that it will accelerate. It has no intention of slowing down because it has no intentions at all. It is a process and the momentum behind it is human-made and human-driven globally, not just in a handful of self-anointed "advanced nations".

Change has no feelings or politics or religion or science. It has no opinion and is not interested in yours or mine. It is simply doing the job it has been doing for a very, very, very long time. Such is life in the third decade of the 21st century.

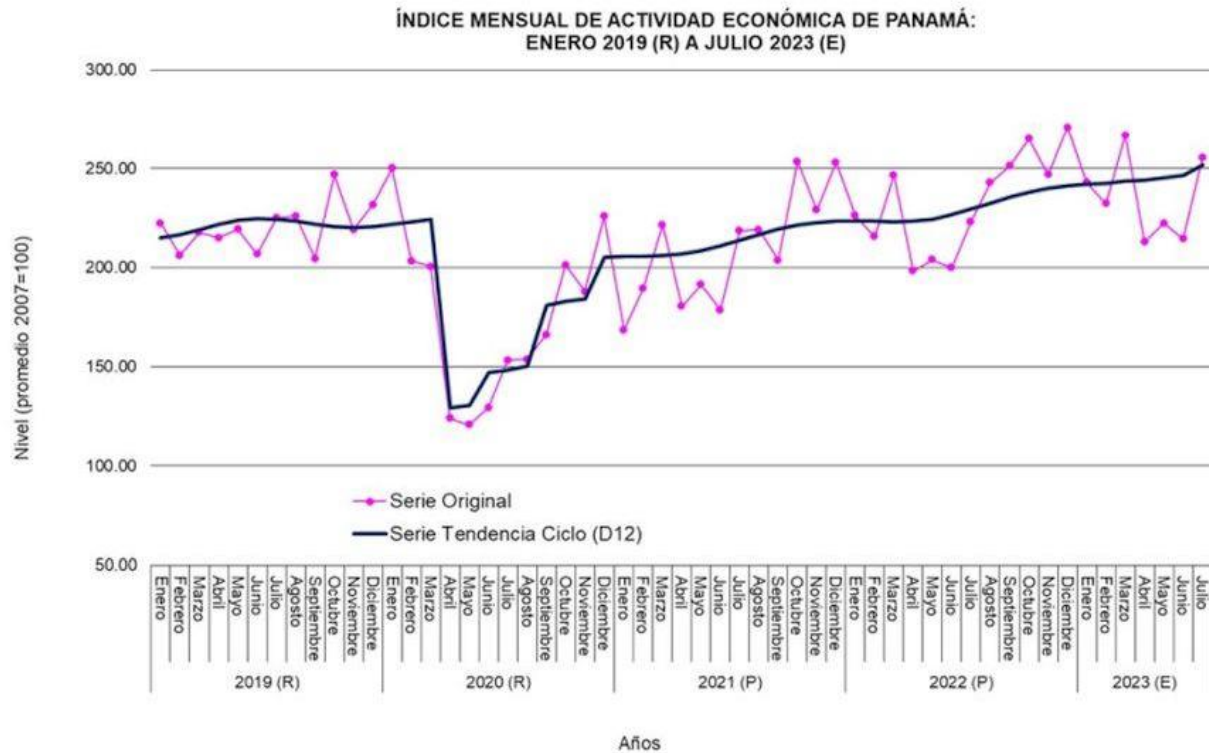
I am at peace with this. I am exactly where I should be...here in Panama. Whether it will be the best place for you is a question only you can answer. As I always say, it is not important to me whether you come to Panama or not, only that you go where you need to go and that is your choice, not mine. But if you come this way, you are welcome! If you do not, keep looking! You will find your place too.

So, what's up with the economy? Or is it down?

I will introduce this with a chart familiar to past newsletter readers. It is a graph of the Monthly Index of Economic Activity (IMAE is the acronym in Spanish). Over the years, it has very closely paralleled the growth of the annual GDP (Gross Domestic Product).

Okay, I know I will have lost some of you who are unfamiliar with these terms, so let me simplify it. Think of the annual GDP as the total income earned in Panama for a year. It is an extremely detailed report released quarterly. The IMAE is monthly. It is similar to the GDP, but less detailed. However, over many years, the IMAE has accurately reflected what is happening with the GDP, so it is a good guide to economic activity and it is published far in advance of GDP so we can see the economy's direction earlier.

The following chart has a pink line that connects results for each month. The blue line is a "trendline" that combines all the months available and gives us a clearer view of the trend since January of 2019 through July of 2023. Focus on the blue line. That is the story.



Notice the clear drop in 2020 as the pandemic showed up in April. After it was over, we were told that it would be 2024 or 2025 before we could get back to where we were in March of 2019. By the middle of 2022, we were back and have continued to rise.

Early this year, estimates by the government and international financial institutions of the 2023 final GDP growth rate ranged from 4.2 to 5%. More recently, estimates have been “adjusted” to 6% or 6.5%. So where does the IMAE indicate we are over half-way through 2023?

The measurement I use (called the Accumulated IMAE) compares all of January through July of this year to the same seven months of last year which gives us a broader view than just comparing this July to last July. The accumulated IMAE, from January to July 2023, showed an **increase of 8.53%** when compared to the same period in 2022. If you wonder what it would be if I simply compared this July with last July? 9.23%. I do not pick the best number to impress anyone. The more conservative number is just fine.

Since we are halfway through the year, it is going to be pretty hard to get it down to 5%, much less 4%! We are doing fine by this measure and it is a clear indication that we have a much more diversified economy than most people think.

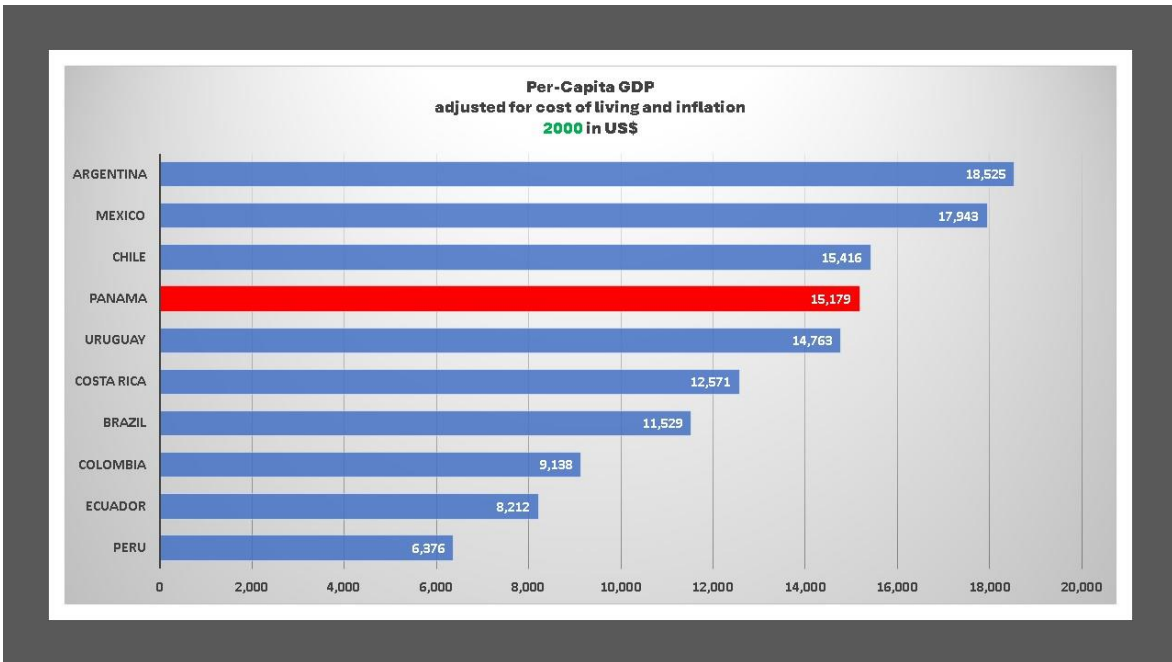
So how does Panama compare to other Latin American nations?

This is an easy question to answer. I will do it in two forms that tell the same story in different ways. The first is the standard graph that compares Panama to a selection of other nations in 2023 and the long-term trend through 2027. This uses the Gross Domestic Product (again, think of it as the national income) per person and is corrected for inflation and cost of living. Yes, Panama is the green line at the top.

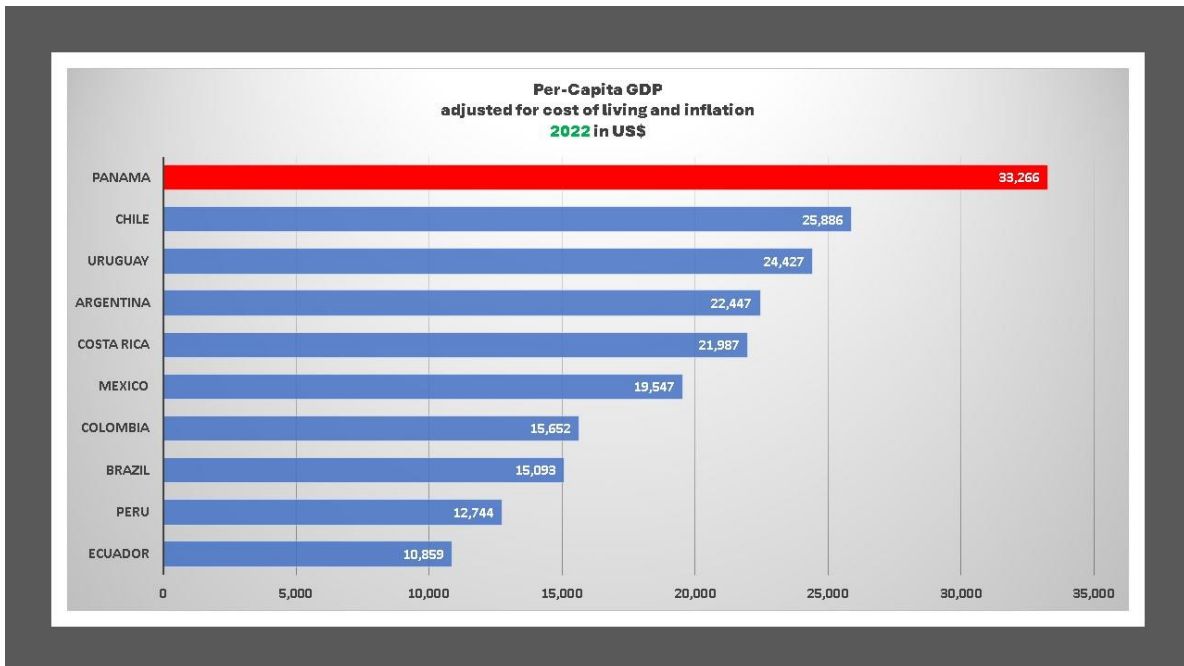


No contest. And note that the statistics for future years are based on lower estimates of Panama's growth, certainly not the 8.5% we see for this year so far.

But here's another way to see it in two graphs. One for the year 2000. The other for the year 2022. The first demonstrates that Panama was already in a good position back at the turn of the century.



Now we can compare that to 2022, as we wait for 2023's results next year.



Source: International Monetary Fund

Panama is now in the best position it has ever been in.

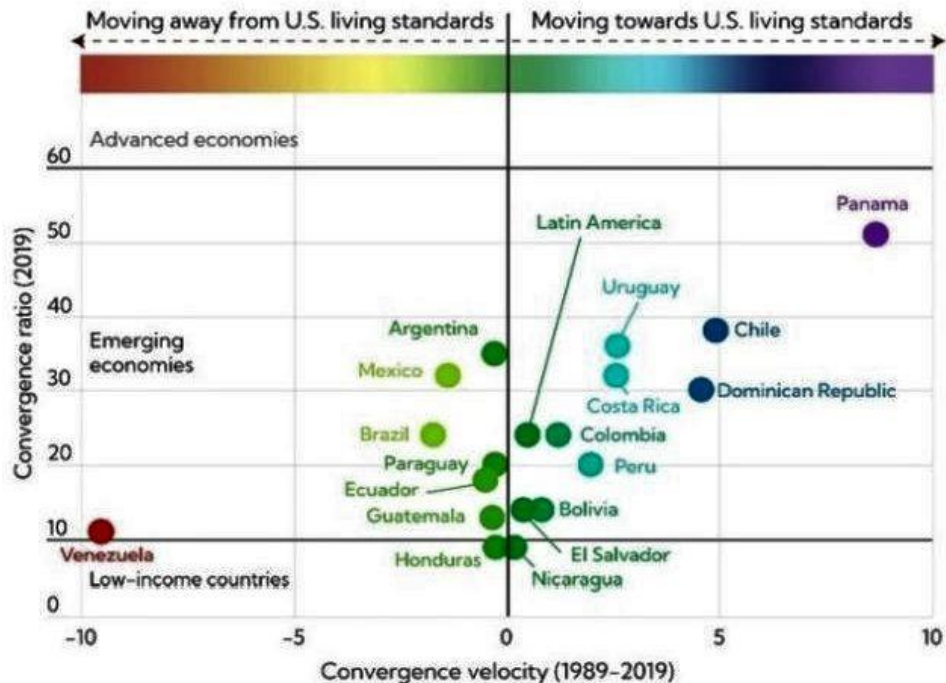
The 2021 IMF outlook remains intact.

Two years ago this November and post-pandemic, a team at the International Monetary Fund wrote a very unusual report. I have read their reports for years, but never one like this. They tend to be critical. It took a long-term look at Panama's past economic performance over a 30-year period, 1989 – 2019, in comparison to the rest of Latin America. This is the period from the American invasion that removed Manuel Noriega through the Canal transition and through the first two decades of this century prior to the pandemic. It was all summed up in this one graphic.

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: IMF, [Panama's Story of Convergence](#)

Despite the pandemic setback, the team made a very strong case that Panama's long-term outlook for the next 30 years was very bright and would reach the standards of the US if it maintained a growth rate of 5% a year and the US continued its sub-2% growth rate over the same period. Their argument still stands unchanged.

A small but interesting detail

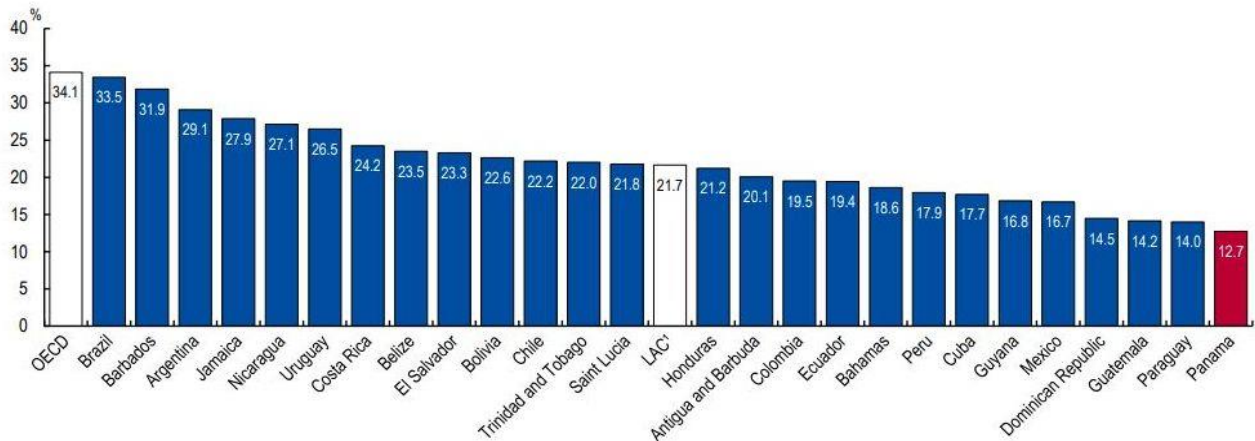
Many Latin American nations have been blessed with natural resources. Those include petroleum, copper, tin, nickel, and other metals. Unfortunately, they have a history of using the profits from these resources for political purposes. The money gets spent too easily and citizens must make up the difference with higher taxes. By the way, this is a human problem. It is just unfortunate that Latin America provides so many examples.

Panama is blessed with an exceptional natural resource – the shortest distance from the Pacific to the Atlantic. However, Panama’s constitution gives the Canal Authority enough independence to protect its income from excessive political manipulation. This has worked out beautifully since the turnover at the end of 1999. There are taxes, but you can see below how Panama’s tax burden compares to other Latin American nations.

Tax-to-GDP ratio

Tax-to-GDP ratio compared to other Latin American and Caribbean (LAC) countries and regional averages, 2021

Panama's tax-to-GDP ratio in 2021 (12.7%) was below the LAC average (21.7%)¹ in this year's Revenue Statistics in Latin America and the Caribbean publication by 8.9 percentage points and below the OECD average (34.1%).



1. Represents the unweighted average of 25 Latin American and Caribbean countries included in this publication and excludes Cuba and Venezuela due to data issues.

Source: Organization for Economic Co-operation and Development (OECD); LAC = Latin America and Caribbean

If you are not familiar with the OECD, the provider of these statistics and shown as the first column, it includes nations like the US, Canada, France, Germany, Turkey, the UK, Switzerland, Japan, Australia, and others, most of whom typically refer to themselves as “advanced” economies. Indeed they are, but in more ways than one.

Bob, what about the American retiree results?

About 15 years ago, the world entered the “global financial crisis”, sometimes called the “Great Recession”, and people here were insisting that far more American retirees were leaving Panama than those arriving, thus the total was in decline. At the time, that was not what I saw among Retirement Wave members. It seemed that some expats (and Panamanians) had opinions, but no real facts. Was there something I could do?

The tough part of this was that the US does not keep a census of its citizens living outside the nation. An American does not need to inform any government agency that he or she is relocating outside US territory. Even federal taxes can be paid from the US by expats, as long as you do not claim special tax deductions or other benefits based on foreign residence.

Moreover, retirement benefits can be paid to a US bank wherever you live and many people, including me, do exactly that, so the US Social Security Administration does not care where you live either. They just ask you where you want the transfer made.

To complicate matters, you can retire to receive benefits as early as 62 or as late as 70 when you are required to receive benefits. The longer you wait, the more money you will receive each month. So many of retirement age hold off from requesting payment.

So how can you tell whether the number of American retirees living in Panama is rising or falling? The simple answer is - you cannot. Although you cannot know exactly how many are coming and going, there is a statistic that will demonstrate the **trend**.

That statistic is the proportion of people receiving their payments by transfer to their Panamanian banks. Many of us, including your editor, receive their payments in the US, then have as much brought down as they need.

However, two things are clear. *If you are having your money transferred to a Panamanian bank, you live in Panama. If you leave Panama, you will definitely see to it that your payments follow you. If more Americans are leaving than arriving, the trend will go down. If not, the trend will go up or stay flat.*

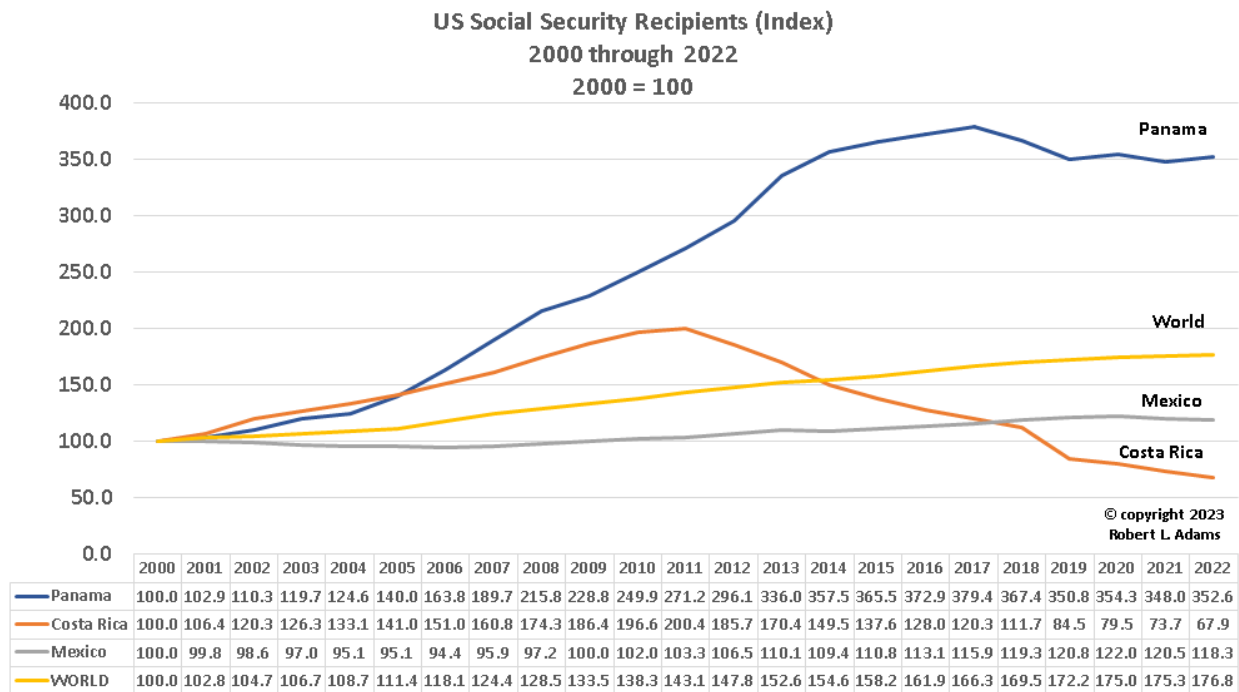
When I first did this, I thought it was just for one time. I found the stats and, while I was doing that, collected them for Costa Rica, Mexico, and the total for the world. Why? In the 20th century, the two most common Latin American destinations for US retirees were Mexico and Costa Rica. For Mexico, many North Americans could get in a car and *drive* to their new home in Mexico. On the east coast, Costa Rica was well-known for its

special program for North American retirees. I wanted to compare each of them to all nations where Americans could retire, so the “World” statistic was included.

It caused a lot of comment at the time (I think it was 2008) and I have continued to do it every year. It meant going through quite a lot of documentation if I wanted the graph to begin in 2000 as they do not provide a graph like this. Time-consuming, but necessary.

Now I faced a final problem. How do I compare the really big numbers for Mexico and the World with two small nations? I created an index. It begins with the year 2000 with each nation and the world starting at 100. The graph shows the percentage increase or decrease. So if a nation is 100 and then 105 the next year, that number has grown 5%. If it is only 95, it has lost 5%. Remember, it is **not the number of people, but the trend** that we are looking for and this is how we can compare Panama to the others fairly.

Moving right along (I see a few of you are falling asleep!), here are the results for 2022. They are only reported annually so we will not know 2023’s results until later next year.



Source - US Social Security Administration

It may surprise you how sharply Costa Rica has declined since its highest rating in 2011. 2018 and 2019 were “down” years for both Costa Rica and Panama, but Panama has stabilized while Costa Rica continues its decline. Mexico has risen over time, but very slowly and unevenly. The World index has grown, slowly but steadily.

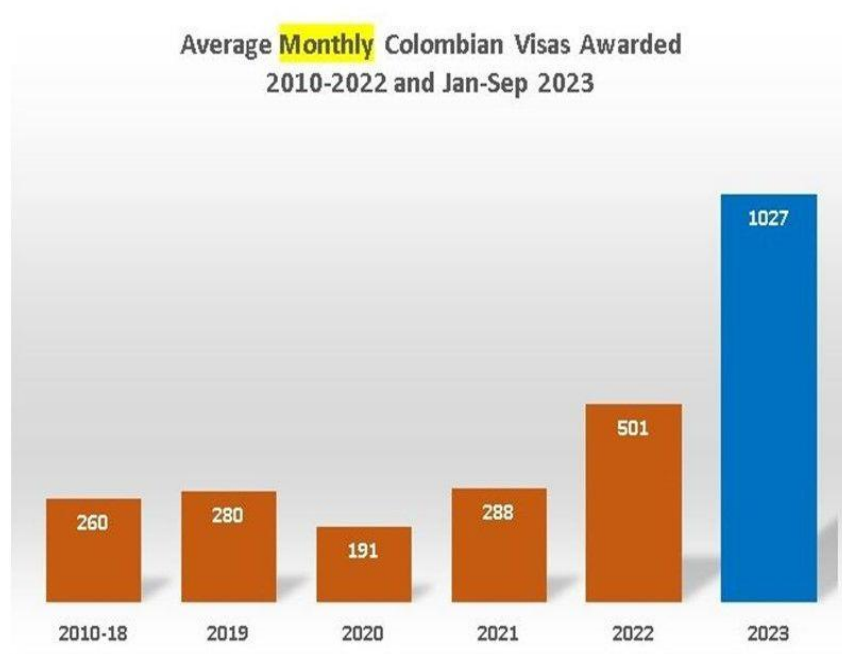
If you are not an American and a retiree, why should you care? Americans have a long history of exposure to Panama. As only one example of many, my uncle served here during WW 2 with the US Army Corps of Engineers.

As the 21st century began, Americans were the largest expat group who were not Latin American and by a very wide margin. Although that margin has shrunk as many Europeans and Asians have joined us, it is still the largest such group. If their numbers were to drop sharply that would be a clear signal that something had seriously affected their attitude toward Panama. Well, it has not happened and I see no reason why it should. Going “flat” is associated with an over-priced real estate market which is now working its way out of that phase, and of course the pandemic.

So what is the fastest-growing expat market today?

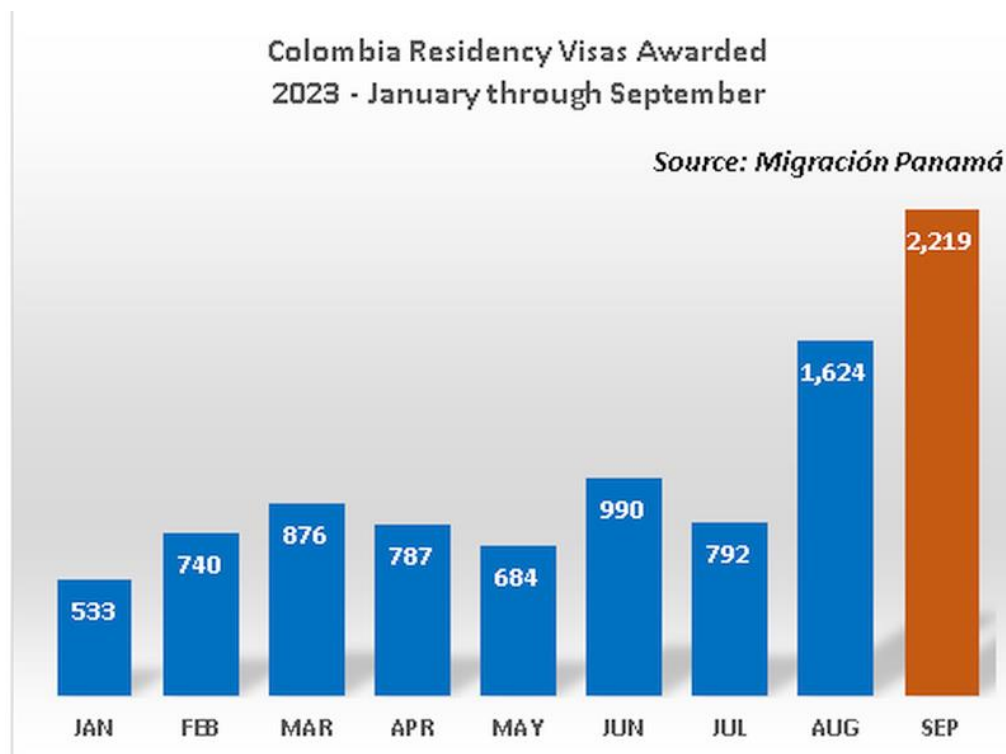
The largest expat markets have long been Latin American, Colombian, and more recently, Venezuelan. Currently, Nicaraguans are third-largest and Americans are fourth. One of those markets is rising rapidly - Colombia. From 2010 through 2018, the monthly results were typically within the range of 250 to 300. 2019, the last “normal” pre-pandemic year, was similar. 2020 was the peak pandemic year and the average fell. 2021 was back to the range but with a portion of the pandemic still underway.

It was in 2022 that I noticed what was an upswing underway. I follow many nations on this matter every month. Something unusual must be happening in Colombia.



Source: Migración Panamá

Now, let us take a look at the monthly total available so far in 2023. When I reported June's 990, it got even more interesting. Well, look what has happened since then.



Without going into detail, Colombia is passing through a difficult time politically, economically, and socially. Colombians applying for residency visas face the same requirements with one exception. The Friendly Nations Visa is not available to them. They have to buy a home for at least \$200K for a temporary visa that can be extended or at least \$300K home for a permanent visa immediately, unless they are retirees but practice says most will be young or middle-aged adults.

It appears a good number of these people may buy in your price range if you are looking for a visa requiring a property purchase. If the current trend continues, this can have an upward impact on prices, or at least make negotiating a lower price more difficult.

In a market where reliable and verifiable statistics on the value of homes that might interest expats seeking visas are simply not available to expats, they are not available to Panamanians as well. As a result, shifts in market pricing can be based on emotional reactions to whatever news is out there. If stories circulate indicating rising prices and they are heard more than once or twice, they catch attention. After all, sellers are looking for good news. They want an excuse to make more money!

At this point, I am not “proving” anything, but since this is now a real trend, it will have real consequences the longer it continues. So you might as well be among the first to know. From my perspective, the data may not answer the question precisely, but it is the best available solid information, much like the US Social Security information I provided earlier.

Now for a different matter but associated with residency. I mean citizenship.

For years, I have warned people who think five years of residency is a good path to citizenship that this is highly unlikely. Technically, it can happen but rarely and not specifically directed toward Americans and Canadians who have been especially interested in this. It is a major selling point for some real estate agencies and law firms. I do not like disappointing these folks but here are the nationalities of people awarded citizenship in the first five months of the year.

Citizenship awarded Jan through May 2023

Venezuela	38	Lebanon	2
Colombia	30	Bolivia	1
Spain	12	Canada	1
Mexico	10	Chile	1
Uruguay	7	Cuba	1
Argentina	6	Dominican Rep.	1
Brazil	6	Ecuador	1
Italy	6	Greece	1
Costa Rica	3	Guatemala	1
USA	3	Honduras	1
Nicaragua	3	Hungary	1
Peru	3	Libya	1
China	2	Russia	1
India	2		

Source: Servicio Nacional de Migración de Panamá

In the nations where Spanish is not the principal language, including the US, the names often are very clearly people of Hispanic heritage. This all fits the general comment I have heard before that citizenship is awarded primarily to Latin Americans and Spaniards, and not very many of them. The total above is 145, or 29 a month. If this continues, we should have about 350 new Panamanian citizens this year. We have several condo apartment houses in the city that have more than 350 residents.

I will leave it at that. Anything can happen in the future but please ignore the hype about citizenship as a goal.

Bits and Pieces

As this report is always a long one, I try to mention at least a few of the many other items of interest that may otherwise go unnoticed or are subjects discussed on my YouTube channel and are follow-ups to those folks.

After years of frustration, Panama has finally been taken off the "grey list" of the International Financial Action Task Force. This has been a constant irritant that weighed on our credit rating and Panama's global banking sector, but it is now history.

The seven buildings that make up the new campus of the University of Panama's School of Fine Arts, known as the City of Arts, will be officially inaugurated this December. It will also house the headquarters of the National Symphony Orchestra and the National Ballet. It will include the theater, dance, plastic arts (like sculpture and ceramics) schools as well as the Music Institute and the Writers' Circle of Panama. In addition, it will have an auditorium, cafeteria, exhibition rooms, and a library. Many shows and performances will be open to the public and I look forward to attending.

The recent agreement between the United States and Panama to initially develop an "assembly, packaging, and testing" center for computer semiconductors could result in an investment of about \$500 million and provide thousands of jobs. The initial planning stage will take several months to prepare the final proposal, but this is an excellent opportunity for Panama to get involved in a very significant market. The planned center for the project will be 40,000 square meters (430,000 square feet, nearly 10 acres). This is part of the US effort to "near-shore" production to reduce the threat of supply line problems.

This year's World Robotic Olympiad will be held in Panama November 7th through the 9th. Some 2000 contestants from about 90 nations will meet in competition at our new convention center, along with Panama's National Team chosen from competitions all over the nation, then the national championship, and finally this Olympiad.

So, is Panama finally perfect, Bob?

“Life isn't filled with perfect harmony. The world is littered with bum notes, off-key moments, and tuneless episodes. The trick is to find your own music, to ignore the discord, and sing your own tune.”

[Annie Lyons, British author, noted for her book, Not Quite Perfect]

Perfect? Definitely not, and it never will be. After all, Panama is just like your nation, inhabited by humans who are famous for their imperfections.

There are at least three issues that concern Panama today.

First, there is the status of the Canal. As you probably have heard, a traditional weather pattern called El Niño has led to an especially dry “rainy season”. The primary reservoir used in the operation of the Canal is Lake Gatun. The Canal actually runs through it. There is another very small reservoir, Lake Alhajuela, but it is very small. Gatun is the important factor. You can see where it stands at any time on the Internet. I will provide a link to that page at the end of this report.

Second, there is a concessional contract for a copper mine on the Caribbean coast. I am going to keep this very short. The word “concessional” simply means that the contractor does not own the land or the mine. They have a contract that requires them to build the mine with their own money. They are contractors and can operate it for 20 years to compensate themselves for their multi-billion-dollar expenses and earn a profit.

This same type of contract is used for the building and operation of the major seaports, and even smaller businesses like those who run restaurants, duty-free shops, etc. at airports. In the mine’s case, the contract could be extended for another 20 years if both parties agreed. After a few years of construction, the mine was opened for operation in 2019. The government returned to renegotiate the contract and, after a difficult time with the contractors, the contract was renegotiated to provide much higher payments to the government. Recently, it was renegotiated for a *second* time to answer citizen complaints and it became law, but it was too soon for those who opposed the contract. This is the issue for the current demonstrations.

The third issue is the most important. For years, people have complained about high levels of corruption. This is not exactly a secret as this has been an issue for many years with many businesses, foreign governments, financial institutions, etc. Unfortunately, it is not unusual in Latin America, but that is no excuse for it in Panama.

Corruption and Panamanian rejection of it are the foundation for everything going on now and will continue to on until at least May 5th of 2024. This will be perhaps the most important election in Panama's history.

How do I feel about this? I feel as I have always felt since I first arrived in 2004 and decided I wanted to make Panama my new home. I have great faith in the people of Panama. I do not involve myself in politics. As a resident, I cannot be a candidate for office, hold office, contribute to a campaign, or vote, but I can express my own opinions. However, I do not do that on behalf of any candidate or party.

But I do commend the people of Panama, especially the young adults who make up a majority of the demonstrators, for demanding an end to corruption. They have to learn how to do this without causing other problems unintentionally. They have to think it through and look for any contradictions or problems in their approach. They have to be ready to respond to fair criticism of their position. In other words, they have to do a better job than the political elite has done.

I watched a sea of demonstrators pass from my balcony, then went down to see them more clearly. They were determined, serious, yet friendly. I was proud of them. I did not feel any fear at all, none. But now the hard work begins. In about six months, a new government will be elected. Nearly half of the voters will be 18-40 years of age. Indeed, nearly 30% will be 18-30, basically young people in their 20s or close to it.

If I were speaking to the demonstrators, this is what I would share.

You do not need anyone from the US to tell you what you should do. It is the same for expatriates from Spain, Colombia, Venezuela, Chile, Argentina, Bolivia, Ecuador, Germany, France, China, Russia, India, Indonesia and more than 100 other nations.

You do not need any of these nations as a "model". Models can be useful when a nation is first developing, but you are beyond that. Not only is Panama one of only three nations of Latin America to be considered "high income" by international financial institutions, it is ranked above the other two, Uruguay and Chile, in the information I already have shared above. Yes, Puerto Rico is a territory of the US, so it officially has the same level of wealth, but no one in Puerto Rico believes that. And yes, the small nation of Guyana will now be included as a result of the discovery of huge quantities of oil off their coast, but that is just a beginning of real wealth, wealth that is earned by

effort, not by a newly discovered natural resource. We wish them well, but their test is just starting now. Panama's "test" has been going on for more than a century.

When I first arrived here in 2004, I found a nation finally "whole", no longer divided in half. In many respects, Panama was now truly independent. A "model" made sense to many people and that was often Switzerland because of its small size, its central location in its continent as Panama is between two continents, and its stress on financial privacy.

But that slowly changed over the years and for more than a decade another model was selected - Singapore. Like Panama, it is small, its claim to fame is its critical role in global shipping, it stood out from its neighbors as "different", and its dramatic economic success by its own efforts was impressive. That seemed to be a good model and it was, but it is no longer necessary.

No, you do not need to look outside your borders for excellent management that exceeds that found in every other Latin American nation. It is charged with the care of a great natural resource, but not one that threatens the climate or the future of any other nation. It has received awards for its management expertise and some of its leaders have been better known internationally than Panamanian presidents.

You already know what I mean. Every single hour of every single day for nearly 110 years, the men and women of the Panama Canal Authority focus their attention on maintaining, protecting, and improving the operation of a huge and incredibly complex canal that is the heartbeat of the nation, yet they do it quietly. Every day, you and I travel the streets of a first-class city while this amazing operation, once again, does its job silently and successfully, even when faced with challenges from Mother Nature.

And we must not forget who was responsible for the massive expansion of the Canal, what I often call the "second Canal". I was here during the referendum where the people were asked to approve the expansion and some Panamanians opposed it because they were convinced it would just be the victim of corruption and some foreigners thought that Panamanians could not manage the administrative challenge. The referendum was passed with nearly 80% approval, the task was done, and the critics were proven wrong.

Something very similar happened once before at midnight of December 31, 1999 when the Canal's administration was officially handed over from the United States to Panama. I read reports from that period. Some Panamanians were convinced that the Canal

would be ruined by incompetence and corruption. Some foreigners felt the same way. That is history now. They were wrong too.

You do not need to look outside Panama for a "model". You have created your own! Study, talk, and listen as these Panamanians share the story we all too easily forget on a busy day in the city, or a quiet day in the countryside or on the beach. You are blessed and the information I provide here helps demonstrate it. Now it is your task to take that blessing and extend it and expand it for the generations that will follow you.

No one ever gets everything they want in life, so they must choose carefully. I believe that the future cannot be predicted with any accuracy by humans and we prove that constantly, over and over again. I cannot tell you what the future holds, but I will say this. If I did not think Panamanian society could not rise to the challenge, I would be very worried.

I am not very worried. I am very hopeful.

¡Viva Panamá!

And so it is, way down south in Panama.

Near the beginning of this report, I wrote, "It is *never* an easy job to share a blurry photograph of a nation's development that is just one frame of a never-ending video." For decades, I have done this sort of analysis for nations all over the world and it is always the same. The real questions are, "Is it a good video? Would you recommend it to friends?" Yes, indeed I would, and I do.

Now, anyone who has read any of my "Reports" since the very first one so many years ago knows what comes next. I read it every time I send out a report and I encourage you to do the same. Friends tell me I'm crazy. I am just attacking my own credibility. I tell them, no, I am emphasizing it.

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

Bob

[The Panama Wave project](#)

[The YouTube channel](#)

[The Gatun and Alhajuela reservoir water levels \(we want green!\)](#)