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FEATURED Q&A

Will Panama's Economy Bounce Back From Covid?



Panama is facing a sharp economic contraction this year due to the Covid-19 pandemic. The Panama Canal is pictured above. // File Photo: Panama Canal Authority.

Q Panama's government on Aug. 17 allowed some businesses, including hair salons and retail stores, to reopen following five months of lockdown measures intended to fight the spread of Covid-19. The Central American nation's economy is expected to contract between 2 percent and 4 percent this year, and the unemployment rate has doubled to 14 percent. How well will the country's economy bounce back from the pandemic? What types of businesses are most likely to strengthen, and which will suffer the most? How well is President Laurentino Cortizo managing the economic crisis?

A Carlos Morales, director for Latin American sovereigns at Fitch Ratings: "We are revising our economic growth forecast to a 9 percent contraction in 2020 given the extension of social-distancing measures beyond initial expectations. A surge in Covid-19 cases forced the government to reimpose restrictions on movement, and it delayed the lifting of economic restrictions. The government implemented a fiscal package of \$2.1 billion (close to 3 percent of GDP) to combat the economic shock, including health and education expenditures, transfers to informal workers and small business owners, and extended tax payment deadlines. We anticipate a recovery of nearly 4 percent in 2021 on the back of full-year copper mine production, government-led infrastructure projects and a base effect following this year's deep economic contraction. The most vulnerable sector in Panama will be tourism, which, although a relatively small sector, is expected to sharply decline this year, and we do not anticipate a speedy recovery next year. The construction sector, paralyzed by social distancing, had shown

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TODAY'S NEWS

ECONOMIC

Bolsonaro Extends Payments for Low-Income Brazilians

Brazilian President Jair Bolsonaro extended financial assistance payments to low-income Brazilians to help them cope with the economic fallout of the Covid-19 pandemic.

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Gang Members Release Guards at Guatemalan Jail

Gang members imprisoned in Guatemala have released 10 guards they had taken hostage following hours of negotiations with police officers.

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POLITICAL

Colombian High Court Transfers Uribe Case

Colombia's Supreme Court transferred the witness tampering case of former President Álvaro Uribe to the chief prosecutor's office, agreeing with Uribe's defense team that the high court no longer has jurisdiction in the matter.

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Uribe // File Photo: Colombian Government.

POLITICAL NEWS

Colombian Supreme Court Transfers Case of Ex-President Uribe

Colombia's Supreme Court on Tuesday transferred the witness tampering case against former President Álvaro Uribe to the country's chief prosecutor's office, the Associated Press reported. Uribe's defense team requested that the case be transferred, saying the high court no longer has jurisdiction in the matter because Uribe is no longer a senator and because the case is unrelated to his political activity, the wire service reported. The court agreed with Uribe's defense team, saying it was transferring the case "because it relates to an investigation which is unrelated to his role as a congressman," Reuters reported. The court's statement, which was posted to its Twitter page, said the justices' decision was unanimous. The Supreme Court ordered last month that Uribe be placed on house arrest over concerns of potential obstruction of justice, Reuters reported. Uribe, who was Colombia's president from 2002 to 2010, has repeatedly denied wrongdoing, rejecting allegations that his allies tampered with witnesses in an effort to discredit Uribe's alleged links to paramilitary groups. Colombia's chief prosecutor's office should be able to resume the case, taking over from the Supreme Court, but some outstanding issues might need to be resolved first, the AP reported. Lawmaker Iván Cepeda, whose accusations started the legal case against Uribe, said he may ask the chief prosecutor to recuse himself from the case. "It's evident that the chief prosecutor has a close relationship with [current] President [Iván] Duque, the national government and ex-President Uribe," Cepeda told BLU Radio. Also, Uribe's defense team could seek to have the investigation restarted from the beginning, negating testimony and other information that has already been gathered in the case, the AP reported. Uribe has also been asked to testify before the Supreme Court in a separate case related to three massacres and the death of a civil-rights activist during Colombia's civil war.

The jurisdiction of the Supreme Court is also likely to be reviewed in that case. [Editor's note: See related [Q&A](#) in the Aug. 14 issue of the Advisor.]

ECONOMIC NEWS

Bolsonaro Extends Payments for Low-Income Brazilians

Brazilian President Jair Bolsonaro said Tuesday that he has extended financial assistance to help low-income Brazilians cope with the economic fallout of the Covid-19 pandemic until the end of the year, but at a lower rate of 300 reais (\$55.63) per month, down from the previous 600 reais, Reuters reported. The far-right president announced the move following



Bolsonaro // File Photo: Brazilian Government.

a boost in his popularity ratings, which most analysts link to the social program. Also on Tuesday, the national statistics institute said Brazil's economy shrank by a record 9.7 percent in the second quarter as compared to the previous three-month period, the Associated Press reported. It was the second consecutive quarterly decline, technically pushing the South American nation into a recession. The decrease in the April-June period was the largest quarterly drop since 1996. However, the decline was less steep than expected, after economists and the president of Brazil's central bank forecast weeks ago that the economy could contract as much as 11 percent. "The good part of the news is that although the fall is very large, it allows us to see possibilities of a rebound in the next quarter," said Gilberto Braga, an economist and professor at Ibmec, a private

NEWS BRIEFS

Imprisoned Gang Members Release 10 Guards in Guatemala

Ten prison guards taken hostage by incarcerated members of the Barrio 18 gang were released hours after captivity and negotiations with police in Guatemala, the Associated Press reported Tuesday. Interior Minister Gendri Reyes said three guards were freed first, and the remaining seven were released early on Tuesday. The gang members had captured the guards at the "Little Hell" prison in Escuintla department in retaliation for the transfer of some of their leaders to another prison.

Tropical Storm Nana Expected to Strengthen Before Striking Belize

Tropical Storm Nana is likely to strengthen to hurricane status by Wednesday night as it heads westward toward Belize, the U.S. National Hurricane Center said in an advisory this morning. As of today at 8 a.m. Eastern Time, Nana was located about 305 miles east of Belize City, heading west at 18 miles an hour, with maximum sustained winds of 60 miles an hour. A hurricane watch is in effect for the entire coast of Belize.

JPMorgan Eyes Transfer of Brazil Private Banking Business to Bradesco

JPMorgan Chase & Co. has reached a deal with Brazil's Banco Bradesco to potentially transfer its private banking clients to the South American lender, Reuters reported Tuesday, citing a document filed by Bradesco. JPMorgan has approximately 20 billion reais (\$3.71 billion) under management in its Brazilian private banking unit, a source told Reuters. Bradesco, Brazil's second-largest private lender, also said JPMorgan will still provide Brazilian clients with products and services abroad. JPMorgan declined to comment on the matter.

Brazilian research university, the AP reported. Financial institutions in a central bank survey on Monday said the Brazilian economy would see a contraction of 5.28 percent in 2020, a more favorable outlook than a month earlier, when they forecast a plunge of 6.5 percent.

Colombian Gov't Allows Reopening of More Businesses

Colombia began expanding the reopening of its economy on Tuesday, with airports, bus terminals, restaurants and gyms resuming operations in much of the South American nation following months of restrictions during the coronavirus pandemic, the Associated Press reported. The move comes after shops, construction sites, shopping malls and factories were allowed to reopen in most of the country's cities in June. The number of coronavirus-related deaths as well as hospital occupancy rates have stabilized across most of the country over the past 10 days, which has led the national government to lift more of the emergency measures that had been in place for five months in an effort to curb the spread of Covid-19, including a ban on most people traveling within the country, *El Tiempo* reported. Under Tuesday's reopening, municipal governments are allowed to impose additional restrictions on businesses. Bogotá Mayor Claudia López announced restaurants there will be allowed to reopen on Thursday but only at 25 percent capacity. Her administration will also block portions of 100 streets around the city from Thursdays to Sundays so restaurants can serve customers by placing tables outside. "Our priority is to create jobs," she said, the AP reported. Some experts have warned that coronavirus cases might rise as a result of the economic reopening. In the last week of August, the Andean nation reported more than 8,000 confirmed cases of the virus per day, down from a record 13,000 cases on Aug. 19. Colombia has the seventh-highest total confirmed cases in the world, at more than 624,000, and more than 20,000 related deaths, according to a count by Johns Hopkins University.

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weakness prior to the pandemic as completion of infrastructure projects and real estate market oversupply had contributed to an ebb in the construction cycle. The unemployment surge will continue to weaken the retail commerce sector, which had already been in a slump. Panama is also susceptible to the ongoing global trade downturn, which will result in lower traffic passing through the Panama Canal, although storage facilities have fared well given a rise of inventories. We anticipate a recovery of traffic and logistical activity around the canal as the effect of the pandemic on global trade fades away."

A **Joaquín Jácome Díez, senior partner at Jácome & Jácome in Panama City and former trade minister of Panama:** "In stark contrast to the economic situation of the United States, which was strong and enjoying record levels not seen in decades, the Panamanian economy has been going through a rough patch for the last two years, after being considered the darling of Latin America. Sluggish growth, high public debt, fiscal deficit, a pension fund deficit and inequality were the problems Panama's economy was facing before Covid-19 arrived. Recently, after five months of severe lockdown, levels of infection seem to be decreasing. However, the economic effects have been devastating for Panamanians, and the worst is yet to come. Hospitality, tourism, retail, construction and agriculture are the hardest-hit sectors of the economy, some of which still have a tentative date for reopening. According to the private sector, the government has dragged its feet reopening the economy and has been unnecessarily selective while doing so, further affecting recovery. In all likelihood, sectors such as mining, logistics and exports will rebound strongly. However, levels of frustration and disappointment with the government regarding its handling of health and economic measures during the pandemic are rising. Lack of empathy with the public, trans-

parency, corruption and improvisation by members of the ruling party are not helping President Cortizo's administration. The government has recently announced a wide range of economic measures, such as loans to SMEs, public infrastructure investments, a tax moratorium and a buying program for the agriculture sector in order to alleviate the burden of the pandemic on the population and reactivate the economy. Hopefully, if implemented with transparency, these measures could alleviate the country's dire situation."

A **Gisela Álvarez de Porras, managing partner of the Panama office of Dentons Muñoz and former trade minister of Panama:** "Panama is a diversified economy, and there is solid evidence of its resilience. The ability of the government to attract foreign investment and reactivate major infrastructure projects will be key for the economy to bounce back from the pandemic. It would also be strategic to pay attention to the competitiveness indicators to maintain the country as an attractive place for business. I see great opportunity for outsourcing services. Retail businesses will suffer the most if they are unable to adapt to new channels of distribution and maintain good control of inventories. I am receiving many indications of interest in Panama, and there seem to be some good opportunities in agro-industrial activities. The informal sector will grow, and it will be a huge challenge to bring it back to the formal economy again. This will certainly affect tax collection."

A **Alejandro Valerio, associate practice leader at DuckerFrontier:** "Panama's economy has a rocky path ahead. Although President Cortizo took swift actions to curtail the spread of Covid-19, the reality is that the pandemic is yet to be under control. Panama has more than 93,000 cases of Covid-19 and a death toll of more than

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2,000. Two key variables are essential to understanding Panama's status. The first is the government's effectiveness in curtailing the spread of cases, which Panama still needs

“Panama's economy has a rocky path ahead.”

— Alejandro Valerio

to improve. Second is the government's fiscal response. The Cortizo administration enacted a fiscal package worth 4.5 percent of GDP, but it will not be enough to substantially lift growth. In this context, key sectors, such as construction, retail, leisure and tourism, will take longer to recover. The

tourism sector is not expected to recover until 2022 as the pandemic has led travel worldwide to plunge. In February, tourist arrivals showed a declining trend, dipping by 47.8 percent year-over-year, before Panama went into lockdown. Panama's economic recovery will depend on the activities at the Panama Canal and on mining exports. The transit of Neopanamax vessels, which only contracted by 7.9 percent year-over-year in June, will be the main driver of canal revenues. Cobre Panama went back online in July after shutting down in April, which will support Panama's exports as commodities prices recover in the third quarter. President Cortizo needs to do more on the pandemic front and focus on keeping strategic sectors of the economy open to ameliorate the deep economic fallout of the second quarter.”

Subscriber Notice

Online Event: 24th Annual CAF Conference

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Secretary General,
OAS

Luis Carranza
President, CAF – Development Bank of Latin America

Carissa F. Etienne
Director,
PAHO

Angel Melguizo
VP of External & Regulatory Affairs, AT&T Latin America

Julissa Reynoso
Partner,
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Paula Santilli
CEO,
PepsiCo Latin America

...AND MANY OTHERS

Sept. 9, 10 and 11, 2020

To register for the event, click [here](#)

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