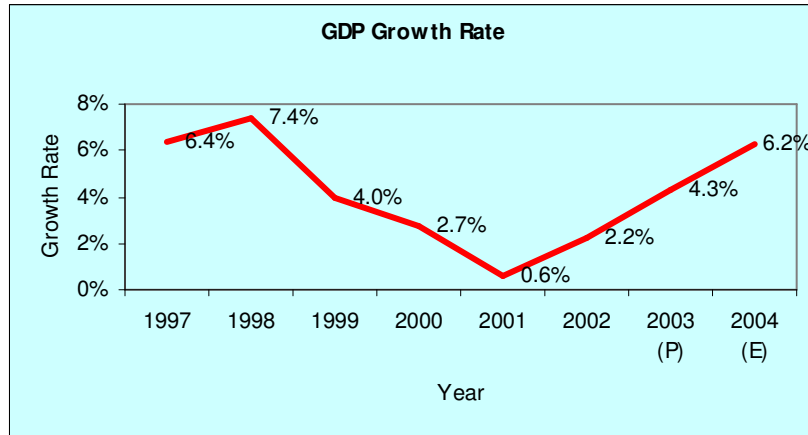


## I. ECONOMY GROWTH, EMPLOYMENT AND INFLATION

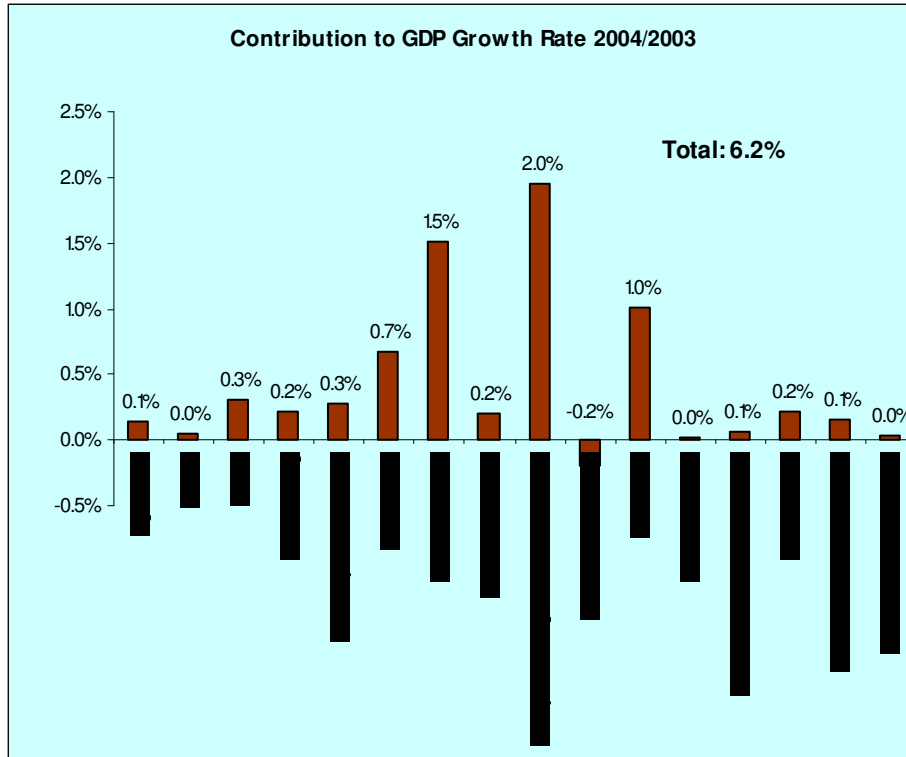
### A. Economic Growth

Gross Domestic Product in 2004 went up to 6.2% compared to the previous year. Growth has been significant in the last two years after the low rates of years 2000, 2001 and 2002.



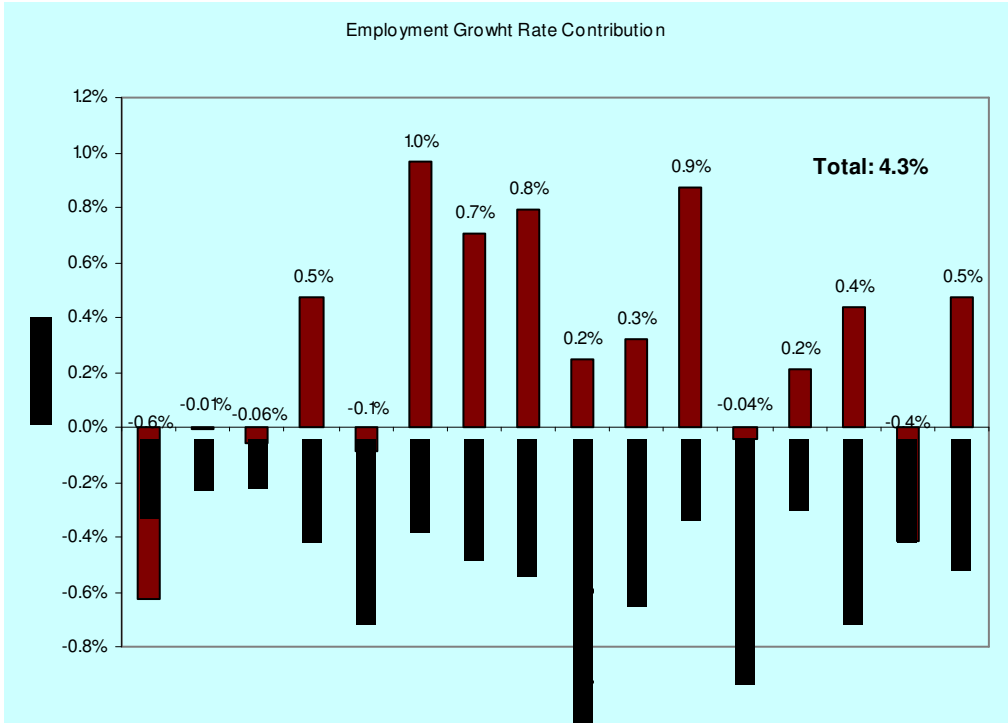
This growth, which is above its long-term average, was mainly due to the recovery of the international economy, which gave a new drive to good and services export activities, which had been stagnated in previous years. Another large influence was derived from the recovery experienced by Latin American countries, such as Argentina, Venezuela, Brazil and Colombia, upon which the Colon Free Zone, the Panama Canal and the Banking Sector depend, and other activities such as container carriage, train transportation, tourism and telecommunications; in addition, they contributed to the economic growth not only on account of the international economy upturn but also to the production capacity enlargement thereof by way of significant investments. The export of non-traditional products such as watermelon, melon and pineapple also increased.

The construction and related real estate activities also contributed substantially, together with the increase in the demand of the mining and quarry sector. The electoral political cycle has also contributed with the consequent campaign expenses before the May elections.



## B. Employment

In 2004, employment went up by 4.3% compared to the previous year. The sectors who contributed mostly were construction, commerce, hotels and restaurants, and real estate activities.

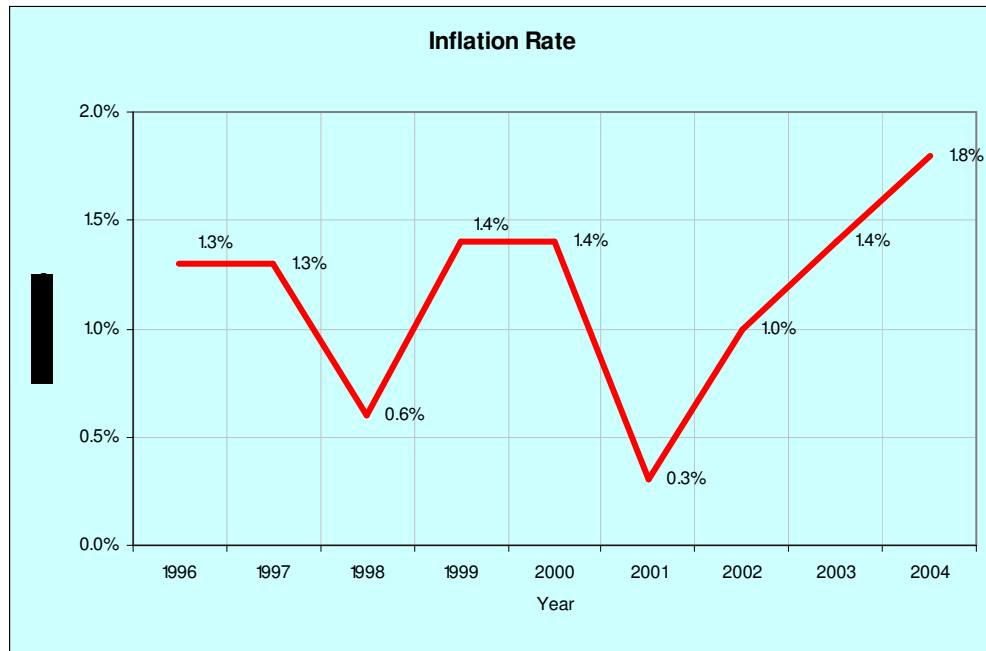


The economic growth of the last two years has contributed to the reduction of the unemployment rate: 12.3%, down from 13.6. However, the level of the unemployment rate remains high, and in order to cut it down, the economy must grow steadily at very high rates in the next years. The reduction in the unemployment rate in the next years could be achieved in intensive workforce sectors, such as tourism, construction, commerce and transportation, which are growing faster than in the last decade.



### C. Inflation Rate

In 2004, inflation stood at 1.8%. In the last two years, inflation has gone up, mainly due to a steady rise of oil prices, the international economic upturn and the expansion of the local economy.



### D. Public Debt

The public debt balance as of September 2004 was \$9,203.62 million, 3.9% up from the same month in the previous year, driven by a fairly rapidly growth of the internal debt. The internal debt went up by 9.8% and the foreign debt by 1.7%. The main items comprising the internal indebtedness were Treasury Certificates and Official Bank Financing. This increase in debt was used to overcome a fiscal deficit of 5.3% of the GDP.

**Public Debt  
(Millions of Dollars)**

