INTERNATIONAL MONETARY FUND

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PANAMA

May 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PANAMA

In the context of the Request for Purchase under the Rapid Financing Instrument, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 15, 2015, following discussions that ended on April 7, 2020, with the officials of Panama on economic developments and policies underpinning the IMF arrangement. Based on information available at the time of these discussions, the staff report was completed on April 8, 2020.
- A **Statement by the Executive Director** for Panama.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR 20/166

IMF Executive Board Approves a US$515 Million Disbursement to Panama to address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- The IMF approved Panama's request for emergency financial assistance under the Rapid Financing Instrument (RFI) of about US$515 million to meet the urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic.
- The pandemic has significantly weakened Panama's macroeconomic outlook for 2020 and opened a balance of payments gap estimated at about US$3.7 billion.
- The RFI provides timely resources to the authorities necessary to mobilize essential COVID-19-related health expenditure and support to the vulnerable population.

Washington, DC – April 16, 2020. The Executive Board of the International Monetary Fund (IMF) approved yesterday Panama's request for emergency financial assistance under the Rapid Financing Instrument (RFI) equivalent to SDR 376.8 million (about US$515 million, or 100 percent of quota) to meet the urgent balance of payment needs stemming from the outbreak of the COVID-19 pandemic.

The pandemic has significantly weakened Panama's macroeconomic outlook for 2020 and opened a balance of payments gap estimated at about US$3.7 billion. The RFI provides timely resources to the authorities necessary to mobilize essential COVID-19-related health expenditure and support to the vulnerable population. The authorities are also seeking support from other multilateral institutions.

To absorb the macroeconomic shock, the government of Panama is appropriately requesting to surpass the fiscal deficit limit under the Social and Fiscal Responsibility Law (with legal limits becoming binding again from 2021 onwards). The authorities announced a package of fiscal measures to increase healthcare spending and boost transfers to the poor under the "*Panama Solidario*" program.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:

The COVID-19 pandemic has disrupted Panama's economy and created urgent balance of payments (BOP) and fiscal financing needs. The government has resolutely implemented measures to contain and mitigate the spread of the pandemic. However, significant uncertainties remain, and the economic fallout could intensify further if containment measures have to be extended.

To address the crisis, policies need to be accommodative. A reorientation of fiscal policy towards short-term priorities is necessary to mitigate the impact of the pandemic. A temporary relaxation of deficit limits under the Social and Fiscal Responsibility Law is appropriate. Returning to a gradual adjustment once the pandemic recedes would ensure that the public debt-to-GDP ratio remains on a sustainable path. Measures have also been taken to maintain financial sector stability, including by allowing banks to use the accumulated dynamic provisioning to improve their liquidity position and absorb the impact of potential credit losses.

Policy responses and macroprudential measures would need to be recalibrated as the situation evolves.

The IMF emergency support under the Rapid Financing Instrument will help provide much-needed resources to address BOP needs and support essential pandemic-related health expenditure. The support of other IFIs and development partners is crucial to close the remaining BOP and budgetary gaps, ease the adjustment burden, and preserve economic growth.

For information on the emergency financing requests approved by the IMF Executive Board, please see a link to the IMF Lending Tracker: https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

For upcoming discussions on the emergency financing requests, please see a link to the calendar of the IMF Executive Board meetings: https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

PANAMA

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

April 8, 2020

EXECUTIVE SUMMARY

- **Context.** While Panama has been one of the most dynamic economies in Latin America over the last two decades, its strength is being tested by the outbreak of the COVID-19 global pandemic. Panama is a service-based economy that is highly integrated in the world economy and vulnerable to the COVID-19 shock. The 2020 Article IV Consultation was concluded by the Executive Board on a lapse of time basis on March 24.

- **Request for Fund support.** In view of the severity of the global COVID-19 shock and the disruption it has created in the Panamanian economy, deteriorating the balance of payments and public finances, the authorities are requesting financial support under the Rapid Financing Instrument (RFI) in the amount of SDR 376.8 million, equivalent to 100 percent of quota. The full amount will become available upon Board approval and will be used for budgetary support. The authorities stand ready to continue cooperating with the Fund in finding solutions to the balance of payments and fiscal imbalances.

- **Macroeconomic policies.** The main policy challenge in the short run is minimizing the loss of human lives in the wake of the COVID-19 pandemic. At the health sectoral level, the Government has declared a National Emergency to enhance prevention measures, and the Ministry of Public Health has designed a plan to face the pandemic, including increasing testing and the number of hospital beds. At the macroeconomic level, this will entail a change in the fiscal stance and a more active use of macroprudential policies. Lower tax collections and pressures on health services are likely to generate a higher fiscal deficit, which would lead to a temporary deviation from the fiscal rule. The Superintendency of Banks is already relaxing regulations on dynamic provisioning to improve the liquidity position of banks and the whole financial system.

Approved By
Aasim M. Husain (WHD) and Zuzana Murgasova (SPR)

Discussions took place via conference calls and videoconferences during March 27–April 7, 2020. The staff team comprised Alejandro Santos (head), Olga Bespalova, Julian Chow, and Marina Rousset (all WHD). Paola Aliperti and Madina Toshmuhamedova (WHD) assisted the team.

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BACKGROUND

1. After two decades of record high growth, Panama's economy weakened in the last two years. Panama experienced an unprecedented economic expansion with average annual growth of 6 percent in the last 25 years, the longest and fastest in Latin America. The high growth episode was supported by an investment boom, which included the expansion of the Panama Canal. However, growth slowed in 2019 amid declining productivity and weaknesses in construction and commerce.

RECENT DEVELOPMENTS

2. The COVID-19 pandemic comes at a time of macroeconomic weakness. The authorities have declared a National Emergency and a mandatory curfew.

- ***Economic growth had moderated to 3 percent in 2019.*** The economic activity index for January 2020 was below 3 percent. Activity now appears poised to weaken significantly in 2020.
- ***The fiscal deficit was contained at about 3 percent of GDP in 2019.*** Revenue shortfalls led to expenditure tightening. The fiscal rule was modified in 2019.
- ***The financial system ended 2019 strong but vulnerable to lower economic activity.*** The banking system is well capitalized. Credit growth moderated sharply but NPLs remain low.
- ***The current account improved in 2019.*** The current account deficit fell to 5.2 percent of GDP in 2019 (from 7.9 percent of GDP the year before), driven by a surge in copper exports.

IMPACT OF COVID-19

3. The COVID-19 pandemic is severely affecting Panama's economy. As of April 6, the number of confirmed cases stood at 2,100 with 55 fatalities. To contain the local spread of the virus, the authorities declared a National State of Emergency, and implemented various measures, such as border controls, a curfew, school closures, suspension of all commercial international flights, cancellation of events, and shutdowns of communal areas and non-essential stores. These measures significantly reduce demand, especially in such sectors as commerce, restaurants, and hotels. Suppression of local economic activity, exacerbated by the decline of global growth and trade, will widen a negative output gap in 2020-21, and negatively affect Canal traffic and its revenues. Lower economic activity will likely lead to a shortfall of budget revenues, while there will be higher public expenditures to provide relief to the population. Weaker

Impact of COVID-19 [1/]

(Percent of GDP unless otherwise indicated)

	2020 Pre-COVID	2020 Post-COVID	△ Change
GDP growth (%)	5.0	-2.0	-7.0
Inflation (%)	1.0	-1.0	-2.0
Fiscal deficit	2.8	6.3	3.5
Public debt (NFPS)	43.1	48.5	5.4
Credit growth (%)	5.6	2.0	-3.6

Source: Fund staff calculations.

1/ Pre-COVID projections are as of January 2020.

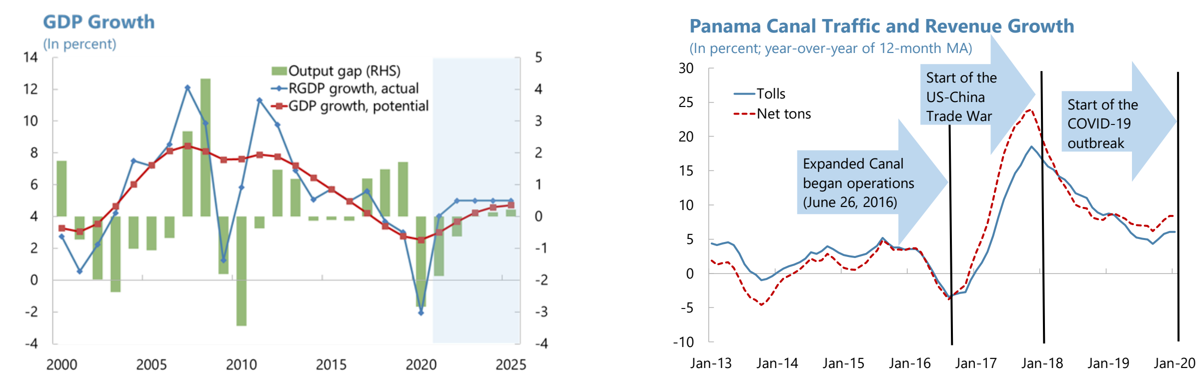
economic activity also may lead to the displacement of labor and higher unemployment, which may cause late payments on banking loans. The government has extended deadlines for tax payments. The Ministry of Economy and Finance has advanced budgetary allocations to speed up COVID-19-related spending.

4. The authorities have implemented several measures to mitigate the negative economic impact of the COVID-19 outbreak. The government has extended deadlines for tax payments, and is reallocating spending to priority areas. The Ministry of Economy and Finance provided the Ministry of Health and other entities with the funds for the necessary healthcare spending.[1] The authorities began to adjust state-controlled fuel prices more frequently to pass through the lower oil price to customers, plan to negotiate a 5 percent reduction of the electricity distribution tariffs, and approved purchases of the emergency food supplies. At least 14 banks announced relief measures for the households and companies affected by the COVID-19 outbreak, including grace periods of 3–4 months for loan payments, elimination of the minimum payment on credit cards, and reductions in interest rates.

Figure 1. Economic Activity: Output Gap and Panama Canal

The economic deceleration due to the COVID-19 pandemic is similar to the global financial crisis...

.... while Canal revenue and traffic are already suppressed due to the fading effect from expansion and trade



Source: INEC and IMF staff calculations.

5. The unanticipated global shock from the pandemic has changed the outlook, especially in the immediate term. The urgent balance of payments needs in 2020 emanate from increased healthcare spending needs, deterioration in trade activities in the free trade zone and tourism, and a decline in capital inflows, although the historic decline in oil prices offsets some of these pressures. With annual growth in major advanced economies being revised down sharply, staff's preliminary estimates suggest that Panama's real GDP could contract by 2 percent in 2020 (from 5 percent expected before this shock), while the current account deficit could widen to 6.8 percent of GDP in 2020 (from 5.2 percent of GDP in 2019). Containment costs and pressures on revenues may increase the fiscal deficit to 6¼ percent of GDP in 2020 (from the target of 2¾ percent of GDP), thereby surpassing the limit established under the Social and Fiscal Responsibility Law (SFRL).

[1] The Ministry of Economy and Finance released US$50 million to buy health and hygiene supplies, and advanced US$9 million to the Ministry of Health and US$1.3 million to other entities to carry out prevention measures.

6. The shock will also have a large balance of payments impact. The impact of the COVID-19 shock on the balance of payments (BOP) can be analyzed by comparing current BOP projections for this year with those made back in January (before the shock was known). Under this metric, the BOP impact of the shock for 2020 could amount to US$3.7 billion (5.7 percent of GDP) despite some relief coming from lower oil prices. The BOP gap is driven by deterioration in: (i) foreign direct investment (FDI), US$2.3 billion; (ii) the current account, US$0.8 billion; and (iii) portfolio investment, US$0.7 billion.[2] The deterioration in the current account is mostly due to lower tourism as improvements due to lower oil prices are offset by declines in the Colon Free Zone and lower receipts from reduced traffic in the Panama Canal.

Balance of Payments: COVID-19 Impact 1/
(In billions of U.S. dollars)

	2020		
	Pre-COVID	Post-COVID	Δ Difference
Current account	-3.6	-4.4	-0.8
Non-oil balance	-6.6	-6.1	0.4
Oil balance	-2.8	-1.5	1.3
Colon Free Zone	2.0	1.5	-0.5
Tourism	3.4	1.7	-1.7
Canal receipts	3.3	2.5	-0.7
Other current	-2.9	-2.5	0.4
Foreign direct investment	5.2	2.9	-2.3
Portfolio Investment	0.9	0.2	-0.7
BOP Financing gap	...	...	**-3.7**
(In percent of GDP)	...	...	-5.7
Potential financing	...	...	**3.7**
IMF (RFI)	...	...	0.5
Other IFIs	...	...	0.7
Savings Fund (FAP)	...	...	0.3
Unidentified support	...	...	2.2

Source: Fund staff estimates
1/ Pre-COVID projections are as of January 2020.

7. Despite the sharp deceleration in 2020, medium-term prospects for Panama's growth remain robust. The pandemic-related setback is expected to be temporary. A meaningful recovery is projected for 2021, supported by construction, logistics, and exports from the new copper mine. Against the backdrop of a stable macroeconomic environment, growth is expected to converge back to its potential of 5 percent from 2022 onwards.

RISKS TO THE OUTLOOK

8. The main risk to the outlook arises from a greater-than-expected severity of the epidemic. The economic outlook is subject to an unusual degree of uncertainty related to the impact of COVID-19 on the global economy and Panama. Staff projections assume that the spread of the disease will be contained at moderate levels and activity will resume relatively rapidly as the health crisis begins to wane. However, the situation could evolve along a more negative trajectory. Should this occur, additional measures to strengthen domestic health services and provide support to vulnerable populations would be needed. These would be partially covered by further reallocation of the budget toward helath and social needs, supported by additional external financing. In addition, the risk of experiencing large FDI and portfolio flow reversals could exacerbate Panama's

[2] The post-COVID projections are based on the following assumptions: compared to 2019, canal receipts and net re-exports from Colon Free Zone are projected to fall by around 20 percent, respectively, while tourism is assumed to decline close to 50 percent due to adverse global economic conditions. Net FDI inflows are assumed to fall by 30 percent due to the weaker economic outlook in source countries, while a shock similar to average levels seen during the Global Financial Crisis is applied to net portfolio inflows (a decline of 95 percent from the net inflows in 2019) to capture a scenario of severe deterioration in global portfolio flows.

BOP needs. A deeper or more protracted shock could further weaken aggregate demand, lower tax revenues and amplify spending needs, widen the current account deficit, and consequently lower GDP growth prolonging the economic recovery.

POLICY DISCUSSIONS

9. The authorities have developed a plan to deal with the health and social emergency. The Pan American Health Organization (PAHO) used the country as an example to follow in Latin America for its response to the COVID-19 pandemic, as Panama's government responded to the threat in a timely manner, built a support team, and mobilized resources. The authorities are enforcing social distancing and maintaining a "sanitary fence" with checkpoints outside Panama City and Colon. The Ministry of Public Health is increasing the number of hospital beds and using additional budgetary support to import medicines and medical equipment. On social spending, the authorities have strengthened the program "*Panama Solidario*" aimed at providing US$100 per month to poor families that depend on informal jobs. In addition, the government suspended payments for public services for low-income residents for four months and expanded budget support to municipalities to address local healthcare needs.

10. The National Assembly temporarily allowed the government to request a higher deficit than the SFRL limits for 2020 amid a national emergency declaration. While the SFRL contains escape clauses with caps, a new legislation gives the government authorization to present to the National Assembly a modification to the SFRL limit for 2020 (even beyond the caps in the escape clauses) in response to the pandemic. For 2020, the fiscal deficit can be above the SFRL limits, but those limits will become binding again starting in 2021. Under these conditions, it would be appropriate to use the automatic stabilizers and not to take compensatory measures as tax collections deteriorate in the face of an impending economic slowdown. There will also be a need to increase spending on health and the social safety net. For other types of expenditures, a relatively neutral policy would be adequate (i.e., following the 2020 budget), although some reallocation of spending might be necessary. Preliminarily and in collaboration with the authorities, staff estimates that fiscal revenues could deteriorate by about 1¾ percent of GDP and that the additional health and social spending could amount to 1½ percent of GDP, increasing the deficit by 3½ percent of GDP (some US$2.1 billion).

Fiscal Accounts: COVID-19 Impact [1/]

	2020		
	Pre-COVID	Post-COVID	Δ Difference
(In percent of GDP)			
Current revenue	18.4	16.7	-1.7
Tax revenue	8.8	8.0	-0.8
Non-tax revenue	3.8	2.7	-1.0
Other	5.9	5.9	0.1
Expenditure	21.2	22.9	1.7
Current	13.4	16.2	2.8
Interest	2.0	2.3	0.2
Capital	5.8	4.5	-1.3
Overall balance	-2.75	-6.25	-3.5
(In billions U.S. dollars	...	...	**-2.1**
(In billions of U.S. dollars)			
Potential financing	...	...	**2.1**
IMF (RFI)	...	...	0.5
Other IFIs	...	...	0.7
Savings Fund (FAP)	...	...	0.3
Unidentified support	...	...	0.5

Source: Fund staff estimates
1/ Pre-COVID projections are as of January 2020.

11. The authorities are approaching other multilateral institutions to cover external and fiscal financing needs. While the 2020 budget was expected to be fully financed, additional budget financing of 3½ percent of GDP needs to be identified. To this end, the authorities have approached both the World Bank and the Interamerican Development Bank (IDB), negotiations are advanced in securing the financing from these international financial institutions.

12. Macroprudential policies should be used to enhance the liquidity position of banks. The absence of a lender of last resort make banks vulnerable to liquidity squeezes at times of economic distress. While banks hold relatively high levels of liquid assets in normal times (around 55-60 percent of deposits), their funding is partly dependent on external sources that could dry up in a crisis situation. To ensure adequate liquidity, the authorities appropriately have released (temporarily) the banks' dynamic provisioning, potentially injecting some US$1.3 billion of additional liquidity in the system (about 2 percent of GDP). The authorities should enhance liquidity monitoring, requiring banks to report deposit flows and expected outflows.

13. Building liquidity buffers remains critical to maintaining financial and external stability. Staff urges the authorities to consider the introduction of an emergency liquidity facility, which could be operated by the BNP. Any solvent bank would have access to the liquidity fund, using public debt instruments as collateral. Finding financing for the creation of the liquidity facility will be a challenge but can be done incrementally over time.

RAPID FINANCING INSTRUMENT ISSUES

14. The RFI is the appropriate instrument to support Panama at this juncture. Panama's qualification is based on urgent balance of payments need arising from the global COVID-19 pandemic shock which, if not addressed, would result in immediate and severe economic disruption. The urgent need for financial assistance and the authorities' focus on containing the pandemic and immediate recovery efforts, make engagement and discussions of a multiyear program infeasible at this juncture. Moreover, the rapid IMF involvement will play also a catalytic role in securing external financing from other sources and help preserve market access.

15. Staff considers access of 100 percent of quota under the RFI to be appropriate. The annual access of 100 percent of quota (SDR 376.8 million or about US$500 million) would provide relief to the temporary external and fiscal needs of the country. It is expected that the RFI resources will be used by the Treasury to provide financing for pandemic-related spending.

16. A safeguards assessment of Banco Nacional de Panama will be needed. The authorities should commit to undergo a safeguards assessment that would need to be completed before Executive Board approval of any subsequent arrangement to which the safeguards policy applies, and to provide Fund staff with the necessary Banco Nacional de Panama's audit reports and authorize the external auditor of the bank to hold discussions with staff. In their Letter of Intent, the authorities confirm that the Ministry of Economy and Finance will be the governmental counterpart executing the timely servicing of the financial obligations to the IMF, in line with existing legal arrangements for public debt.

17. Panama is assessed as having sustainable debt and adequate capacity to repay the Fund. The RFI resources would be the first time in decades that Panama uses Fund resources, and it only represents 0.8 percent of GDP. The Fund's risks from this RFI exposure will be minimal given the authorities' excellent track record of servicing their debt obligations. The DSA (Annex I) shows debt to be sustainable with a sufficient buffer even after the impact of the pandemic. Moreover, Panama has the capacity to repay the Fund, with scheduled repayments of the RFI at no point in excess of 2 percent of exports or 8 percent of reserves. Panama's sovereign credit has "investment" grade ratings from the main international credit rating agencies.

AUTHORITIES' VIEWS

18. The authorities indicated that a higher-than-budgeted deficit will be warranted in view of the unprecedented nature of the COVID-19 shock and its adverse impact on the vulnerable segments of the population. In anticipation of large fiscal outlays required to support healthcare and social-support spending, they promptly tried to secure additional financing and passed legislature that will allow the government to request the authorization of a higher deficit in response to the pandemic for the 2020 budget envelope to expand fiscal space. They indicated that all government spending that they could reallocate, including operating and capital expenditures, will be used to focus on the immediate priorities such as expanding medical capacity and the *Panama Solidario* social program to support the poor and the unemployed. The authorities are also in the process of negotiating financial support from other multilateral institutions.

19. The authorities concurred that the financial system is stable and reflected strong and sound financial conditions prior to the COVID-19 crisis but remains vulnerable. They indicated that banks have accumulated sufficient dynamic provisioning, which could be used to absorb losses from a potential increase in nonperforming loans following weakening economic conditions. They concurred with the need to adhere to the Basel framework and guidelines on loan restructuring. The authorities also agreed that due to the unpredictability of the length of the global pandemic they will be structuring a facility to strengthen and enhance banking system liquidity.

STAFF APPRAISAL

20. The short-term outlook has weakened considerably, and the uncertainty is high. Staff welcomes the authorities containment measures and increased healthcare spending to mitigate the impact from the COVID-19 pandemic and contain the spread of the virus. Suppressed local economic activity, exacerbated by weak global activity and trade, will create fiscal and BOP financing gaps. In the medium term, the economy is expected to return to its potential growth of 5 percent with inflation at 2 percent. Key risks to the outlook stem from a more severe and protracted recession, weaker-than-expected global growth, and deglobalization trends.

21. Staff agrees with the temporary relaxation of fiscal deficit limits and the reorientation of fiscal policy to short-term priorities to mitigate the impact of the pandemic. To ensure that public debt-to-GDP ratios remain sustainable and on a declining path, staff supports the return to the gradual adjustment envisaged under the SFRL once the pandemic recedes.

22. Staff reiterates the need to recalibrate macroprudential policies to maintain a stable financial system. Weak economic conditions could exacerbate pressures on banks' asset quality and liquidity. To mitigate this impact, staff supports the authorities' measures that have allowed banks to use the accumulated dynamic provisioning to absorb the impact of credit losses; and restructure loans, including by introducing grace periods on loan payments for affected borrowers. Liquidity buffers should also be used, if needed. The SBP should continually monitor the situation and adjust its policy response accordingly.

23. Against this background, staff supports the authorities' request for a purchase under the RFI in the amount of SDR 376.8 million (100 percent of quota). Staff support is based on the severity of the COVID-19 outbreak, urgent BOP needs, and the authorities' existing policies to mitigate this external shock which include engaging the World Bank and IDB to address budgetary needs. To ensure that public debt-to-GDP ratios remain sustainable and on a clear downward path, staff welcomes the authorities' commitment to returning to a gradual adjustment under the SFRL once the pandemic recedes.

Table 1. Panama: Selected Economic and Social Indicators, 2015–25

Population (millions, 2019)	4.2	Poverty line (percent, 2017)	20.7
Population growth rate (percent, 2019)	1.4	Adult literacy rate (percent, 2018)	95.4
Life expectancy at birth (years, 2017)	78.1	GDP per capita (US$, 2019)	15,905
Total unemployment rate (August, 2019)	7.1	IMF Quota (SDR, million)	376.8

					Est.	Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(Percent change)						
Production and prices											
Real GDP (2007 prices)	**5.7**	**5.0**	**5.6**	**3.7**	**3.0**	**-2.0**	**4.0**	**5.0**	**5.0**	**5.0**	**5.0**
Consumer price index (average)	0.1	0.7	0.9	0.8	-0.4	-0.9	0.5	1.5	2.0	2.0	2.0
Consumer price index (end-of-year)	0.3	1.5	0.5	0.2	-0.1	-1.0	1.0	2.0	2.0	2.0	2.0
Output gap (% of potential)	-0.1	-0.1	1.2	1.5	1.7	-2.8	-1.9	-0.6	0.0	0.1	0.2
Demand components (at constant prices)											
Public consumption	**7.6**	**10.1**	**6.5**	**7.5**	**8.7**	**19.6**	**-10.4**	**4.9**	**4.2**	**4.3**	**5.6**
Private consumption	2.8	7.1	3.1	2.3	3.0	1.0	4.0	5.0	5.0	5.0	5.0
Public investment [1/]	-20.4	49.0	-20.7	7.0	-5.2	-15.1	16.5	-5.1	4.3	5.1	3.3
Private investment	12.6	-5.5	14.9	-0.1	-3.6	-21.4	6.6	4.9	3.6	2.4	4.4
Exports	0.9	-4.3	5.0	5.0	-1.4	-10.2	16.6	6.0	7.4	5.0	5.3
Imports	-0.1	-4.8	4.7	2.8	-3.1	-17.0	13.3	5.2	6.6	3.8	5.2
Financial sector											
Private sector credit	**11.4**	**8.4**	**6.5**	**4.5**	**2.4**	**2.0**	**4.5**	**6.6**	**7.1**	**7.1**	**7.1**
Broad money	5.5	4.1	5.2	2.8	2.5	-2.9	4.5	6.6	7.1	7.1	7.1
Average deposit rate (1-year)	2.7	2.7	2.7	3.5	3.9	…	…	…	…	…	…
Average lending rate (1-year)	3.3	3.5	3.5	4.3	4.7	…	…	…	…	…	…
					(In percent of GDP)						
Saving-investment balance											
Gross domestic investment	**42.8**	**40.5**	**41.7**	**41.3**	**38.5**	**33.3**	**34.1**	**33.8**	**33.4**	**32.7**	**32.5**
Public sector	5.5	7.8	5.9	6.1	5.2	4.5	5.0	4.5	4.5	4.5	4.4
Private sector	37.2	32.7	35.8	35.2	33.2	28.8	29.2	29.3	28.9	28.3	28.1
Gross national saving	33.8	32.7	35.8	33.1	33.2	26.5	28.1	28.3	28.5	28.4	28.2
Public sector	3.0	3.9	4.2	4.2	2.5	-1.6	3.0	2.9	2.9	3.0	2.8
Private sector	30.8	28.8	31.5	28.9	30.7	28.1	25.2	25.4	25.6	25.4	25.4
Public finances [1/]											
Revenue and grants	**22.7**	**22.6**	**22.0**	**21.9**	**20.8**	**17.6**	**21.2**	**21.2**	**21.0**	**21.0**	**20.7**
Expenditure	25.9	24.8	24.2	24.8	23.4	23.6	23.3	22.8	22.6	22.5	22.4
Current, including interest	16.8	16.7	17.0	17.1	17.8	18.9	18.0	18.0	17.9	17.8	17.7
Capital	9.0	8.0	6.9	6.5	5.6	4.7	5.3	4.8	4.7	4.7	4.7
Overall balance, including ACP	-3.2	-2.2	-2.2	-2.9	-2.6	-6.0	-2.1	-1.6	-1.6	-1.5	-1.6
Overall balance, excluding ACP	-2.4	-2.0	-2.2	-3.2	-3.1	-6.25	-2.5	-2.0	-2.0	-2.0	-2.0
Total public debt											
Debt of Non-Financial Public Sector [2/]	**35.5**	**34.8**	**34.8**	**36.8**	**41.0**	**48.5**	**48.9**	**47.9**	**46.7**	**45.6**	**44.6**
External	28.2	28.5	28.7	30.5	34.9	40.2	39.9	39.1	38.1	37.1	36.3
Domestic	7.3	6.3	6.1	6.2	6.1	8.4	9.0	8.8	8.6	8.4	8.3
Debt of ACP	5.1	4.7	4.4	4.2	3.9	3.9	3.5	3.2	2.8	2.5	2.2
Other [3/]	3.1	3.8	3.4	4.2	4.1	4.2	4.1	3.8	3.6	3.3	3.1
External sector											
Current account	**-9.0**	**-7.8**	**-5.9**	**-8.2**	**-5.2**	**-6.8**	**-6.0**	**-5.3**	**-4.8**	**-4.2**	**-4.1**
Net exports from Colon Free Zone	2.7	2.9	3.0	2.5	2.7	2.3	2.4	2.5	2.6	2.6	2.7
Net oil imports	3.5	3.4	3.8	4.4	3.8	2.3	2.4	2.6	2.7	2.7	2.8
Net foreign direct investment inflows	7.3	7.9	6.9	7.9	6.3	4.5	5.0	5.2	5.2	5.3	5.3
External Debt	161.3	159.9	149.6	151.8	156.5	172.9	175.2	173.0	170.4	166.4	162.8
Memorandum items:											
GDP (in millions of US$)	54,092	57,908	62,219	65,128	66,801	64,839	67,786	72,261	77,391	82,886	88,771

Sources: Comptroller General; Superintendency of Banks; and IMF staff calculations.

1/ Includes Panama Canal Authority (ACP). Includes Staff adjustment to account for the accrual of previously unrecorded expenditure for 2015-18.

2/ Non-Financial Public Sector according to the definition in Law 31 of 2011.

3/ Includes debt of public enterprises outside the national definition of NFPS (ENA, ETESA, and AITSA) and non-consolidated agencies.

Table 2. Panama: Summary Operations of the Non-Financial Public Sector, 2015–25[1]

(In percent of GDP)

	2015	2016	2017	2018	Est. 2019	Projections 2020	2021	2022	2023	2024	2025
					Non-Financial Public Sector						
Revenues	**19.7**	**20.1**	**20.0**	**19.7**	**18.4**	**16.7**	**19.0**	**19.0**	**18.8**	**18.8**	**18.6**
Current revenue	19.6	20.1	20.0	19.7	18.4	16.7	19.0	19.0	18.9	18.8	18.7
Tax revenue	9.3	9.7	9.2	9.2	8.2	8.0	8.7	8.7	8.6	8.6	8.4
Nontax revenue	3.7	3.4	4.5	4.4	4.2	2.7	4.3	4.4	4.3	4.3	4.3
o/w: Panama Canal fees and dividends	1.8	1.8	2.6	2.6	2.6	1.1	2.7	2.7	2.6	2.6	2.5
Social security agency	5.6	5.8	5.7	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Public enterprises' operating balance	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 2/	0.7	1.0	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Capital revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**22.1**	**22.1**	**22.2**	**22.9**	**21.5**	**22.9**	**21.5**	**21.0**	**20.8**	**20.8**	**20.6**
Current primary expenditure	13.6	13.5	13.6	13.7	14.3	16.2	14.0	14.0	14.0	14.0	14.0
Central government 3/	8.1	7.9	8.0	8.0	8.4	10.2	8.1	8.1	8.1	8.1	8.1
Rest of the general government	5.5	5.6	5.6	5.6	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Social security agency	5.0	5.1	5.2	5.2	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Decentralized agencies	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Interest	1.7	1.7	1.7	1.8	1.9	2.3	2.4	2.4	2.2	2.2	2.1
Capital	6.6	6.7	6.5	6.3	5.3	4.5	5.1	4.6	4.5	4.6	4.5
Accrued spending 4/	0.2	0.2	0.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance 5/	**-2.4**	**-2.0**	**-2.2**	**-3.2**	**-3.1**	**-6.25**	**-2.5**	**-2.0**	**-2.0**	**-2.0**	**-2.0**
Net financing 6/	**3.0**	**1.7**	**2.8**	**4.5**	**3.6**	**6.25**	**2.5**	**2.0**	**2.0**	**2.0**	**2.0**
External	2.4	2.1	2.1	3.1	5.1	4.2	1.5	1.6	1.6	1.6	1.6
Domestic	0.6	-0.5	0.8	1.4	-1.5	2.0	1.0	0.3	0.4	0.4	0.4
					Panama Canal Authority (ACP)						
Revenue	**4.8**	**4.3**	**4.6**	**4.8**	**5.0**	**2.1**	**4.9**	**5.0**	**4.9**	**4.8**	**4.6**
Expenditure	**5.6**	**4.6**	**4.7**	**4.5**	**4.5**	**1.8**	**4.5**	**4.6**	**4.5**	**4.4**	**4.3**
Current primary expenditure	1.4	1.4	1.5	1.5	1.5	0.4	1.5	1.6	1.5	1.5	1.5
Transfers to the government	1.8	1.8	2.6	2.6	2.6	1.1	2.7	2.7	2.6	2.6	2.5
Interest payments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital expenditure	2.4	1.3	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Overall balance	**-0.8**	**-0.3**	**-0.1**	**0.3**	**0.5**	**0.2**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
					Consolidated Non-Financial Public Sector						
Overall balance (incl. ACP)	**-3.2**	**-2.2**	**-2.2**	**-2.9**	**-2.6**	**-6.0**	**-2.1**	**-1.6**	**-1.6**	**-1.5**	**-1.6**
Memorandum items:											
Primary balance (excl. ACP)	-0.8	-0.4	-0.5	-1.5	-1.5	-4.2	-0.3	0.1	0.0	0.0	-0.1
Structural primary balance (excl. ACP) 7/	-0.8	-0.3	-0.8	-1.8	-1.8	-3.8	0.0	0.3	0.0	0.0	0.0
Primary balance (incl. ACP)	-1.5	-0.4	-0.4	-1.0	-0.6	-3.7	0.4	0.8	0.7	0.7	0.5

Sources: Comptroller General; Ministry of Economy and Finance; and IMF staff calculations.

1/ Official presentation excludes the operations of the ACP as it is not part of the NFPS.

2/ Includes the balances of the nonconsolidated public sector and revenue of the decentralized agencies.

3/ Different from Table 3 as it excludes the transfers to other agencies.

4/ Staff adjustment to account for the accrual of previously unrecorded expenditure for 2015-18.

5/ For 2015 - 2017, includes spending allowed under Article 34 of Law 38 of 2012.

6/ Includes staff adjustment for net financing through the change in obligations related to unrecorded expenditure for 2015-2019. For 2019, also accounts for deposits accumulated in pre-financing operations.

7/ Primary balance adjusted for the output gap.

Table 3. Panama: Summary Operations of the Central Government, 2015–25[1]
(In percent of GDP)

					Est.	Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues and grants	**13.4**	**13.3**	**13.9**	**13.8**	**12.6**	**11.0**	**13.3**	**13.3**	**13.2**	**13.1**	**13.0**
Current revenue	13.2	13.3	13.9	13.8	12.6	11.0	13.3	13.3	13.2	13.1	13.0
Taxes	9.3	9.7	9.2	9.2	8.2	8.0	8.7	8.7	8.6	8.6	8.4
Direct taxes	4.8	5.1	4.9	5.1	4.4	4.2	4.8	4.8	4.7	4.7	4.5
Income tax	4.3	4.6	4.4	4.6	4.0	3.8	4.4	4.4	4.3	4.2	4.1
Tax on wealth	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Indirect taxes	4.5	4.6	4.3	4.1	3.8	3.8	3.9	3.9	3.9	3.9	3.9
Import tax	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
ITBMS	2.4	2.6	2.5	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Petroleum products	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other tax on domestic transactions	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Nontax revenue	3.9	3.6	4.7	4.6	4.4	3.0	4.6	4.6	4.5	4.6	4.6
Dividends	1.6	1.5	2.3	2.3	2.2	1.1	2.2	2.3	2.2	2.2	2.1
Of which : Panama Canal Authority	1.1	1.2	1.9	1.8	1.8	0.8	1.9	1.9	1.9	1.8	1.8
Panama Canal Authority: fees per ton 1/	0.7	0.7	0.7	0.8	0.8	0.3	0.8	0.8	0.8	0.8	0.8
Transfers from decentralized agencies	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Other	1.1	0.9	1.2	1.0	0.9	1.0	1.0	1.0	1.0	1.1	1.1
Capital revenue	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**17.4**	**17.5**	**17.5**	**17.5**	**16.7**	**18.0**	**16.6**	**16.1**	**16.0**	**16.0**	**16.0**
Current	11.1	10.7	10.9	10.9	11.5	14.0	12.1	12.1	12.0	11.9	12.0
Wages and salaries	4.0	4.3	4.6	4.7	4.8	4.9	4.7	4.7	4.7	4.7	4.7
Goods and services	1.4	1.3	1.3	1.2	1.2	3.0	1.2	1.2	1.2	1.2	1.2
Current expenditure of CSS	0.7	0.5	0.6	0.6	0.7	0.6	0.6	0.6	0.5	0.5	0.5
Transfers to public and private entities	3.2	2.8	2.7	2.7	3.0	3.3	3.1	3.1	3.1	3.1	3.1
Interest	1.7	1.7	1.7	1.8	1.9	2.2	2.5	2.5	2.4	2.4	2.5
Domestic	0.3	0.3	0.4	0.3	0.4	0.4	0.6	0.6	0.6	0.6	0.6
External	1.4	1.4	1.4	1.4	1.5	1.8	1.9	1.9	1.9	1.8	1.9
Capital	6.0	6.5	6.1	5.7	5.2	4.0	4.6	4.1	4.0	4.1	4.0
Accrued spending 2/	0.3	0.3	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings 3/	2.2	2.6	3.0	2.9	1.1	-3.1	1.3	1.2	1.2	1.2	1.0
Overall balance 4/	**-4.1**	**-4.1**	**-3.6**	**-3.6**	**-4.1**	**-7.0**	**-3.3**	**-2.8**	**-2.9**	**-2.8**	**-3.0**
Financing (net) 5/	4.4	2.6	3.3	4.3	2.6	7.0	3.3	2.8	2.9	2.8	3.0
External	2.4	2.1	2.4	3.3	5.5	4.2	1.5	1.6	1.6	1.6	1.6
Of which : Multilateral lenders	1.5	1.2	1.5	1.3	1.2	2.1	0.6	0.5	0.3	0.0	0.0
Of which : Private creditors	2.3	1.7	2.4	2.7	4.9	2.5	2.2	2.1	1.9	1.8	1.7
Of which : Other lenders	-1.4	-0.8	-1.5	-0.7	-0.7	-0.4	-1.3	-0.9	-0.6	-0.3	-0.1
Domestic	2.0	0.5	0.9	1.0	-2.8	2.8	1.8	1.2	1.3	1.3	1.4
Of which: Net credit from banks	0.2	-0.4	-0.3	0.5	-2.2	0.0	-0.4	0.0	0.0	0.0	0.0
Of which: Net credit from non-banks	1.6	0.6	0.8	-0.3	1.6	2.0	1.4	0.3	0.4	0.4	0.4
Of which: Other lenders	0.2	0.3	0.4	0.8	-2.3	0.7	0.8	0.8	0.9	0.9	1.0
Memorandum items:											
Primary balance	-2.4	-2.4	-1.8	-1.9	-2.2	-4.8	-0.9	-0.3	-0.4	-0.4	-0.5
GDP (in millions of US$)	54,092	57,908	62,219	65,128	66,801	64,839	67,786	72,261	77,391	82,886	88,771

Sources: Comptroller General; Ministry of Economy and Finance; and IMF staff calculations.
1/ Includes public service fees.
2/ Staff adjustment to account for the accrual of previously unrecorded expenditure for 2015-18.
3/ Current revenues and grants less current expenditure.
4/ For 2015 - 2017, includes spending allowed under Article 34 of Law 38 of 2012.
5/ Includes staff adjustment for net financing through the change in obligations related to unrecorded expenditure for 2015-2019. For 2019, also accounts for deposits accumulated in pre-financing operations.

Table 4. Panama: Summary Balance of Payments, 2015–25
(In percent of GDP; unless otherwise stated)

					Est.	Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
					(In percent of GDP)						
Current account	**-9.0**	**-7.8**	**-5.9**	**-8.2**	**-5.2**	**-6.8**	**-6.0**	**-5.3**	**-4.8**	**-4.2**	**-4.1**
Merchandise trade excluding Colón Free Zone, net	-18.1	-16.3	-16.6	-16.6	-14.5	-11.7	-11.9	-11.9	-11.7	-11.1	-11.2
Exports, f.o.b.	7.5	6.3	7.2	7.7	8.5	7.8	7.9	7.9	8.4	8.3	8.0
Of which: Copper	0.0	0.0	0.0	0.0	1.3	2.3	2.3	2.2	2.8	2.5	2.2
Of which: Gold	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2
Imports, f.o.b.	25.6	22.5	23.7	24.3	23.0	19.5	19.8	19.8	20.1	19.4	19.2
Of which: Oil	6.0	5.4	6.8	8.0	7.5	4.4	4.7	5.0	5.1	5.1	5.2
Merchandise trade from Colón Free Zone, net	2.7	2.9	3.0	2.5	2.7	2.3	2.4	2.5	2.6	2.6	2.7
Re-exports, f.o.b.	18.8	16.1	15.0	15.0	13.0	11.2	11.8	12.0	12.4	12.4	12.6
Imports, f.o.b.	16.1	13.2	12.1	12.5	10.3	8.9	9.5	9.5	9.8	9.7	9.9
Services, net	13.0	12.9	13.9	13.6	13.2	10.8	12.3	12.6	12.8	12.9	13.1
Travel, net	5.3	5.3	5.6	5.3	4.7	2.6	4.1	4.2	4.2	4.3	4.3
Transportation, net	6.4	6.5	7.2	7.3	7.7	6.5	7.0	7.2	7.2	7.3	7.3
Of which: Canal	4.5	4.1	4.5	4.6	4.8	3.9	4.0	4.0	3.9	3.8	3.8
Other services, net	1.2	1.2	1.1	1.0	0.9	1.7	1.2	1.3	1.3	1.4	1.5
Income, net	-6.6	-7.3	-6.2	-7.7	-6.6	-8.1	-8.7	-8.5	-8.5	-8.6	-8.7
Primary, net	-6.4	-7.1	-6.0	-7.6	-6.6	-7.9	-8.6	-8.4	-8.3	-8.4	-8.4
Of which: Direct investment	-5.0	-5.7	-4.5	-5.8	-5.0	-5.6	-6.3	-6.3	-6.3	-6.4	-6.3
Secondary, net	-0.2	-0.2	-0.2	-0.1	0.0	-0.2	-0.1	-0.2	-0.2	-0.3	-0.3
Of which: Workers' remittances	-0.7	-0.7	-0.6	-0.5	-0.5	-0.7	-0.6	-0.6	-0.7	-0.7	-0.7
Capital account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-12.0**	**-13.3**	**-9.3**	**-9.8**	**-7.8**	**-6.8**	**-5.9**	**-5.3**	**-4.7**	**-4.2**	**-4.1**
Foreign direct investment, net	-7.3	-7.9	-6.9	-7.9	-6.3	-4.5	-5.0	-5.2	-5.2	-5.3	-5.3
Of which: Reinvested earnings	-3.9	-3.7	-2.9	-4.3	-3.2	-1.9	-1.7	-1.8	-1.8	-1.8	-1.9
Portfolio investment, net	-0.6	-0.2	-1.1	-0.6	-4.8	-0.3	-0.7	-0.8	-1.0	-0.5	-0.3
Financial derivatives, net	-0.1	-0.1	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-3.8	-6.1	0.3	-0.4	1.2	-1.8	-0.5	0.3	1.1	1.3	1.1
Reserve assets, net	-0.1	1.1	-1.6	-1.0	1.8	-0.2	0.2	0.3	0.4	0.4	0.4
Net errors and omissions	**-3.1**	**-5.5**	**-3.4**	**-1.6**	**-2.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Exports of goods and services (annual percent change)	-7.8	-3.3	7.7	5.1	-0.8	-19.7	17.0	7.9	10.0	7.0	7.3
Imports of goods and services (annual percent change)	-10.9	-6.9	5.8	7.2	-5.3	-20.1	13.0	6.8	8.6	5.0	6.9
Oil trade balance (percent of GDP)	-3.5	-3.4	-3.8	-4.4	-3.8	-2.3	-2.4	-2.6	-2.7	-2.7	-2.8
Gross international reserves (in millions of U.S. dollars)	4143	4745	3788	3149	4375	4267	4429	4674	4956	5258	5581
Net international investment position (in percent of GDP)	-76.3	-84.3	-87.6	-93.5	-98.8	-108.4	-109.4	-107.7	-105.1	-102.1	-99.3
Gross external debt (percent of GDP)	161.3	159.9	149.6	151.8	156.5	172.9	175.2	173.0	170.4	166.4	162.8

Sources: INEC; and IMF staff calculations.

Table 5. Panama: Indicators of Fund Credit, 2020–25
(In millions of SDRs, unless otherwise specified)

	2020	2021	2022	2023	2024	2025
Existing and Prospective drawings (100% of Quota, RFI)	376.8	…	…	…	…	…
(in percent of quota)	100	…	…	…	…	…
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)						
Amortization	0.0	0.0	0.0	94.2	188.4	94.2
GRA charges	3.8	6.5	6.5	6.2	3.4	0.5
GRA service charge	1.9	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0
SDR charges	0.4	0.5	0.5	0.5	0.5	0.5
Total debt service	6.1	7.0	7.0	100.9	192.3	95.2
(in percent of exports of G&S)	0.0	0.0	0.0	0.4	0.8	0.4
(in percent of GDP)	0.0	0.0	0.0	0.2	0.3	0.1
(in percent of GIR)	0.2	0.3	0.2	3.3	5.8	2.7
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)						
Outstanding stock	376.8	376.8	376.8	282.6	94.2	0.0
(in percent of quota)	100.0	100.0	100.0	75.0	25.0	0.0
(in percent of GDP)	0.8	0.8	0.7	0.5	0.2	0.0
(in percent of GIR)	14.7	14.0	13.1	9.2	2.9	0.0
Memorandum items:						
Exports of goods and services (US$ mn)	22,745	26,612	28,711	31,573	33,773	36,226
GDP (US$ mn)	64,839	67,786	72,261	77,391	82,886	88,771
US$/SDR exchange rate	1.38	1.38	1.38	1.38	1.38	1.38
Gross International Reserves (US$ mn)	3,543	3,705	3,951	4,232	4,534	4,857
Quota	376.8	376.8	376.8	376.8	376.8	376.8

Source: Fund staff estimates.

Annex I. Public Debt Sustainability Assessment (DSA)

Bottom line: Sustainable.

Baseline

Public debt of the NFPS is expected to remain sustainable, rising from 41 percent of GDP in 2019 to about 48.9 percent of GDP by 2021, reflecting unfavorable debt dynamics spurred by the pandemic-related macroeconomic shock, but declining gradually to 44.6 percent of GDP by 2025. The GFN will remain moderate averaging 6.2 percent over the projection horizon. Neither debt nor GFN breach the MAC DSA thresholds.	The authorities are addressing the COVID-19 shock with additional temporary spending financed by international bond issuance and loans from IFIs. Despite the sharp deceleration in 2020 to -2 percent (y/y), medium-term prospects for Panama's growth remain robust. Against the backdrop of a stable macroeconomic environment, growth is expected to converge to its potential of 5 percent from 2022 onwards. Inflation is expected to remain low, at around 2 percent in the medium term. The overall NFPS deficit is projected to rise to 6.25 percent of GDP in 2020, as the SFRL deficit threshold is temporarily relaxed, before returning to adherence to SFRL limits in 2021 and falling to 2 percent of GDP over the medium term. The medium-term fiscal path is assessed as realistic.

Stress Tests

Debt and GFN remain below the high-risk thresholds in all standardized macro-fiscal stress tests as well as in the combined macro-fiscal shock.	Debt is vulnerable to a growth shock (namely, a slow recovery in 2021– 22), which would cause gross nominal public debt to rise above 50 percent of GDP. The path of debt is declining under all shock scenarios.

Assumptions

The COVID-19 shock is expected to lead to negative growth in 2020Q2-Q3, with a V-shaped recovery starting in 2020Q4. A sharp rise in the overall deficit of the NFPS is projected for 2020.	The baseline growth projections are in line with the WEO assumptions, and fiscal assumptions are aligned with authorities' views in 2020 and the SFRL thereafter. A more protracted shock could weaken aggregate demand for longer, lower tax revenues and increase the fiscal deficit, widen the current account deficit, and lower GDP growth.

Coverage and Contingent Liabilities

The definition of "public" debt is the debt of the nonfinancial public sector (NFPS). NFPS debt accounts for contingent liabilities of large SOEs, including Panama's State Highway Company (ENA), utility company (ETESA) and Tocumen International Airport (AITSA).

Figure 1. Panama: Public Sector DSA – Baseline Scenario

(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of April 01, 2020		
	2009-2017 [2/]	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	36.5	36.8	41.0	48.5	48.9	47.9	46.7	45.6	44.6	EMBIG (bp) 3/		306
Public gross financing needs	6.8	6.2	6.4	9.2	5.6	5.0	5.1	7.4	4.9	5Y CDS (bp)		135
Net public debt		25.8	28.2	35.1	36.0	35.7	35.2	34.8	34.4			
Real GDP growth (in percent)	6.3	3.7	3.0	-2.0	4.0	5.0	5.0	5.0	5.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.1	0.9	-0.4	-0.9	0.5	1.5	2.0	2.0	2.0	Moody's	Baa2	Baa2
Nominal GDP growth (in percent)	10.7	4.7	2.6	-2.9	4.5	6.6	7.1	7.1	7.1	S&Ps	BBB	BBB
Effective interest rate (in percent) [4/]	5.8	5.3	5.3	5.3	5.2	5.2	5.0	4.9	4.9	Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing
Change in gross public sector debt	-0.7	2.0	4.3	7.5	0.4	-1.0	-1.2	-1.1	-1.0	3.5	primary
Identified debt-creating flows	-1.4	1.7	2.5	7.7	0.6	-0.8	-1.0	-1.0	-0.8	4.8	balance [9/]
Primary deficit	0.3	1.5	1.5	4.2	0.3	-0.1	0.0	0.0	0.1	4.5	-0.9
Primary (noninterest) revenue and grants	21.2	19.7	18.2	16.4	18.8	18.7	18.6	18.6	18.5	109.6	
Primary (noninterest) expenditure	21.4	21.1	19.6	20.6	19.1	18.6	18.6	18.6	18.5	114.1	
Automatic debt dynamics [5/]	-1.6	0.2	1.0	3.5	0.3	-0.7	-0.9	-0.9	-0.9	0.3	
Interest rate/growth differential [6/]	-1.6	0.2	1.0	3.5	0.3	-0.7	-0.9	-0.9	-0.9	0.3	
Of which: real interest rate	0.5	1.4	2.1	2.6	2.2	1.6	1.3	1.2	1.2	10.2	
Of which: real GDP growth	-2.1	-1.2	-1.1	0.9	-1.9	-2.3	-2.2	-2.2	-2.1	-9.8	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GG: Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., ESM and Euroarea loans)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.6	0.3	1.8	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	

Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Panama: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

Appendix I. Letter of Intent

Panama City, Panama
April 7, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. On March 13, 2020, the Government of Panama announced a "State of Emergency" to prevent the spread of the global COVID-19 pandemic. As of April 6, 2,100 cases have been confirmed, with 55 deaths and 14 recovered. Given the severity of this outbreak, our government decided to close borders, including the docking of cruises, ships, and commercial vessels. All inbound and outbound commercial international flights have been suspended, with the exception of cargo and humanitarian flights. An executive decree was also issued by the President, introducing a total quarantine and prohibiting residents from all outdoor activity. All stores across the country will remain closed except for supermarkets, pharmacies, and medical centers.

2. This adverse development has severely affected our economy. Our preliminary projections suggest that real GDP growth in 2020 could decline to -2 percent—down from a pre-pandemic projection of over 4 percent—owing to significant deterioration in international trade that affects canal traffic and activities in the free trade zone, losses of agriculture production and tourism earnings, and disruptions to transport, communications and financial services. To prevent a further downward spiral in our economy and well-being of our citizens, our government has undertaken various stimulus measures which, among others, include:

- Extension of tax amnesty (from its expiration in February) and the deadline for tax returns (from March to June).
- Moratorium in the payment of public services, such as water and electricity, for a period of 90 days.
- Creation of a "Panama Solidarity Plan" with an initial fund of US$428 million to support health care and social spending to mitigate economic effects in vulnerable sectors.
- Expansion of healthcare spending in light of emerging pandemic-related needs.

The Superintendence of Banks also authorized the release of US$1.3 billion in commercial banks' dynamic provisioning, allowing banks to refinance loans, grant grace periods to affected borrowers, and reduce interest rates.

3. Our fiscal situation has changed, requiring reallocation of budgetary resources to critical spending in disease containment and eradication (including medical supplies, equipment, and facilities) and increased social assistance to the most vulnerable. The fiscal deficit is projected to rise to 6.25 percent of GDP in 2020—over 3 percentage points of GDP higher than earlier

projected. The increase in imports, particularly for medical supplies and equipment, along with an anticipated significant weakening of tourism, exports and canal revenue, and slowdown in FDIs and portfolio investment, will put tremendous strain on our balance of payments.

4. Against this background, and in the face of the urgent BOP need, the Government of Panama requests emergency financing from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR 376.8 million, equivalent to 100 percent of quota. This IMF assistance will help meet the urgent balance of payments needs in 2020 that are associated with an increased health spending needs, deterioration in trade activities in the free trade zone and tourism, and a decline in capital inflows. We are confident that, with the support of the international community, including the World Bank and Inter-American Development Bank, these needs will be fully financed during this year.

5. The Government of Panama values its cooperation with the IMF. We are committed to ensuring continued macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

6. Even as we contemplate an increase in public spending to carry out emergency pandemic response, we are aware of the need to contain fiscal imbalances that could jeopardize macroeconomic stability once the emergency is over. Specifically, to ensure that public debt-to-GDP ratios remain sustainable and on a clear downward path, we are committed to returning to a gradual adjustment envisaged under the Social and Fiscal Responsibility Law (SFRL) once the pandemic recedes. Beyond the medium-term fiscal consolidation outlined above, we are committed to strengthening our public financial management to ensure effective oversight over the entire public sector.

7. In line with IMF safeguards policy, we commit to undergoing a safeguards assessment in connection with the RFI. We will provide IMF staff with Banco Nacional de Panama's most recently completed external audit reports and authorizing our external auditors to hold discussions with IMF staff. Given that financing from the IMF will be disbursed for budget support The Ministry of Economy and Finance will be the governmental counterpart executing the timely servicing of financial obligations to the IMF, in line with existing legal arrangements for public debt.

8. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI.

Sincerely yours,

/s/

Hector Alexander
Minister of Economy and Finance

Statement by Mr. Bevilaqua, Executive Director for Panama,
Mr. Fachada, Alternate Executive Director for Panama, and Mr. Maciá,
Advisor to the Executive Director for Panama
April 15, 2020

1. On behalf of our Panamanian authorities, we thank the staff team led by Mr. Santos for their policy advice and swift response to the request for financial support. We also thank management and Executive Directors for their readiness to help the membership during these exceptional times. The authorities are confident that Fund's assistance will contribute to attenuate the impact of the ongoing exogenous shock on the economy and on the wellbeing of the Panamanian people.

2. In recent decades, Panama has been the fastest growing economy in the Western Hemisphere, maintaining relatively strong macroeconomic and financial fundamentals. The COVID-19 outbreak is expected to interrupt the growth trajectory, causing the first GDP contraction since 1988. The authorities project real GDP to decline by 2 percent in 2020, compared to an expansion of 3 percent in 2019 and an average growth rate close to 7 percent between 2004 and 2018. As a small, open, highly interconnected and services-dependent economy, Panama is a textbook example on how an exogenous shock can have sharp domestic spillovers. To aggravate, the pandemic has hit Panama in a period of cyclical weaknesses, caused by the completion of some mega capital projects, moderated private consumption and uncertainties related to the mid-2019 political transition, among other factors.

3. The Covid-19 outbreak caused serious disruptions in social life and economic activity in Panama since early March. As of April 12, Panama had 3,400 confirmed cases and reported 87 fatalities, with more than 100 persons in critical conditions and thousands in house quarantine. Sadly, Panama has the highest number of cases per capita in Latin America. This is certainly not a result of the negligence of the authorities or the disregard of the population for social distancing guidelines. On the contrary, the authorities have been forcefully in adopting prevention and containment measures, and as alluded in the staff report, the Pan American Health Organization (PAHO) used Panama's response to the outbreak as an example to be followed in Latin America. Nevertheless, Panama's geographic position and its role as a trade, maritime and air hub made the country particularly vulnerable to the spread of the disease.

4. The authorities have been proactive in containing the spread. The first steps were taken still in early March, with the closure of schools and universities. On March 13, the government announced a nationwide state of emergency. All businesses have been ordered a full lockdown in late March, except for supermarkets, pharmacies and food and medicine distributors. A mandatory curfew has also been implemented. Public transportation has been limited, with strict enforcement of social distancing norms. Airports have been closed, except for cargo and humanitarian aid. Widespread testing of COVID-19 has been launched still in March, and Panama leads in the number of tests carried out in Central America.

5. The pandemic has created significant balance of payments needs due to the reduction in exports of goods and services (including tourism), increase of imports of medical supplies and equipment, decline in Panama Canal revenues and in Colon free trade net inflows, as well as drop in direct and portfolio investment. Staff's estimate of an external gap of 5.7 percent of GDP relative to the pre-COVID-19 scenario illustrates well the challenges faced by the authorities.

6. The administration that took office in July 2019 confronted a scenario of large arrears to suppliers and contractors, declining tax revenues and off-budget expenditures. The new authorities immediately envisioned a plan to put the fiscal situation back on track. Expenditure restraint in the second half of 2019 effectively brought the fiscal deficit for the year to 3.1 percent of GDP, below the amended fiscal rule. Before the outbreak, the authorities intended to continue with gradual fiscal consolidation to bring the deficit to 2 percent of GDP by 2022, in line with the Social and Fiscal Responsibility Law (SFRL) framework.

7. However, the need to face the pandemic, boost the capacity of the health sector and support the economy forced the authorities to review that strategy. As a dollarized economy without independent monetary policy, fiscal and macroprudential policies are the only counter-cyclical instruments. The temporary loosening of the fiscal stance in the current circumstances is undoubtedly appropriate and Panama has some fiscal space to accommodate the shock. The authorities are not only increasing health spending under their "Panama Solidarity Plan" to ensure that the healthcare system is prepared to meet the needs of the population, but are also supporting affected businesses and households, particularly the most vulnerable. They project the fiscal deficit to rise to slightly above 6 percent of GDP in 2020. However, the authorities will return to the parameters of their SFRL as the crisis abates, ensuring that public debt remains on a sustainable trend.

8. On the financial front, the Superintendence of Banks has released commercial banks' dynamic provisioning. The authorities expect with the measure to enable banks to grant grace periods to their borrowers, facilitate the refinance of loans, and foster a reduction of credit rates. The banking system has already agreed to defer payments up to three months on several categories of loans, including personal, car, and credit card balances. Overall, the banking system remains sound, profitable, and with robust capital structure and buffers.

9. Access to the Rapid Financing Instrument (RFI) equivalent to 100 percent of Panama's quota (approximately USD 515 million at current exchange rates) will help the authorities close the budget and external gaps. The authorities have also tapped international capital markets with a USD 2.5 billion bond issuance in late March, are accessing other international financial institutions (World Bank and Inter-American Development Bank) and may use their Savings Fund (FAP) as a last resource. With these actions, they expect to have sufficient financing to cover this difficult period.

10. The authorities are confident that, with the containment of the Covid-19 outbreak and the gradual resumption of global trade and activity, the Panamanian economy will be in a robust position to start growing again. They expect a “U-shaped” recovery starting in the final quarter of 2020 and an expressive rebound in 2021, led by the logistics, construction, and mining sectors. Over the medium-term, the authorities project that GDP growth will converge to around 5 percent per year.