INTERNATIONAL MONETARY FUND

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PANAMA

August 2022

SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PANAMA

In the context of the Second Review Under the Arrangement Under the Precautionary and Liquidity Line, 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 July 15, 2022, following discussions that ended on June 22, 2022, with the officials of Panama on economic developments and policies underpinning the IMF arrangement under the Precautionary and Liquidity Line. Based on information available at the time of these discussions, the staff report was completed on June 27, 2022.
- 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

PR22/260

IMF Executive Board Completes the Second Review Under the Precautionary and Liquidity Line Arrangement for Panama

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the second review under the two-year Precautionary and Liquidity Line (PLL) arrangement for Panama, which was approved on January 19, 2021 in the amount equivalent to US$2.5 billion (SDR 1.884 billion).

- The PLL serves as insurance against extreme external shocks emanating from global uncertainties against the backdrop of the war in Ukraine and new variants of the COVID-19 virus that may derail economic recovery. Access to the full amount of the PLL equivalent to US$2.5 billion (SDR 1.884 billion) will be available after completion of this review. The authorities intend to continue treating the arrangement as precautionary.

Washington, DC – July 15, 2022: The Executive Board of the International Monetary Fund (IMF) completed today the second review under the Precautionary and Liquidity Line (PLL) Arrangement for Panama for SDR 1.884 billion (500 percent of Panama's quota, equivalent to about US$2.5 billion). The Panamanian authorities have not drawn on the arrangement and intend to continue treating it as precautionary. The PLL serves as insurance against extreme external shocks stemming from the persistent global uncertainties.

Panama's economy recovered strongly in 2021 with the gradual easing of the temporary containment measures as health and sanitary conditions improved. Real output expanded by 15.3 percent in 2021, and the growth momentum is expected to continue into 2022, reinforced by the resumption of the construction of a new metro line and improving private investment.

While Panama is able to meet its external financing needs under present conditions, the PLL arrangement provides insurance against externally driven downside risks. Policy priorities under the PLL include boosting the post-pandemic recovery, supporting an adequate level of spending on health and social needs, fortifying financial stability, and further strengthening institutional policy frameworks that include financial integrity and data adequacy. Panama has adopted these policies envisaged under the PLL arrangement and continued to adhere to the amended fiscal rule which safeguards debt sustainability over the medium term. The authorities remain committed to continue strengthening Panama's institutional frameworks, including for the effectiveness of the AML/CFT regime, transparency of legal persons and legal arrangements including for beneficial ownership information, data adequacy and statistics reporting, multi-annual budgeting, and financial sector regulation and supervision.

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

"Panama's economy recovered strongly in 2021, driven by a rebound in domestic demand and higher copper exports, despite continuing challenges from the COVID-19 pandemic and global uncertainties. The recovery is expected to continue in 2022, subject to significant risks, including from global uncertainties arising from the war in Ukraine, higher crude oil prices, tighter global financial conditions, and new variants of the COVID-19 virus. Continued strong policies and commitment under the PLL will help to alleviate vulnerabilities, strengthen the recovery, and enhance market confidence.

“Panama continues to meet the PLL qualification criteria. The authorities intend to continue to treat the PLL arrangement as precautionary.

“The authorities are committed to the fiscal rule and to gradual fiscal consolidation, which is central to reinforcing debt sustainability. Efforts to strengthen revenue mobilization and contain current expenditure, while prioritizing and appropriately targeting capital and social spending are important. Continued prudent policies and contingency planning would help to alleviate risks to the budget. Measures to strengthen public financial management and fiscal transparency are also important.

“Measures to strengthen financial stability and enhance financial integrity are central to preserving Panama’s position as a regional financial center. Avoiding further delays in implementing the FATF action plan, and the related reputational risks, would support an exit from the FATF grey list. Efforts to address the remaining deficiencies in the AML/CFT regulatory framework are critical. The authorities are taking steps to strengthening regulatory, supervisory, and macroprudential policy frameworks.”

INTERNATIONAL MONETARY FUND

PANAMA

June 27, 2022

SECOND REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

EXECUTIVE SUMMARY

Context. Despite continuing challenges from the COVID-19 pandemic and new risks emanating from global uncertainties, a combination of sound policy measures and a resolute vaccination program have supported a gradual return to normality and underpin a rebound in economic activities. External imbalances remain contained, and fiscal consolidation is underway as the authorities are adhering to the fiscal rule, which ensures a declining path for the public debt to GDP ratio. While the outlook is favorable, it remains subject to elevated risks, including global uncertainties arising from the war in Ukraine, faster-than-expected US monetary tightening, tighter global financial conditions, higher crude oil prices, and new variants of the COVID-19 virus that may derail the recovery. Domestic risks include significant delays in implementing the FATF action plan to exit the grey list.

PLL review. Staff recommends completion of the Second PLL Review as: (i) all indicative targets and 2 out of 3 structural benchmarks have been met; (ii) Panama continues to meet the PLL qualification criteria; (iii) the Executive Board gave a generally positive assessment of Panama's policies in the context of the 2021 Article IV Consultation and the First Review of the PLL Arrangement; and (iv) the authorities remain committed to implementing the strong policy agenda supported under the PLL arrangement:

- ***Conditionality***. The quantitative indicative targets on banking buffers and government deposits were met. The structural benchmarks on publishing: (i) the international reserves template; and (ii) quarterly fiscal data were also observed. Although the end-October 2021 structural benchmark on adopting measures to strengthen the effectiveness of the AML/CFT regime was not met at that time, satisfactory progress has been achieved since then to justify completion of the second PLL review.
- ***Eligibility***. Staff assesses that Panama continues to meet the PLL qualification criteria, performing strongly in 3 out of the 5 PLL qualification areas (external, fiscal, and monetary) and not substantially underperforming in the other 2 areas (financial and data). Moreover, Panama's economic fundamentals and policy frameworks are sound, the authorities have a track record of implementing sound policies and remain committed to maintaining such policies in the future.

Approved By
James Morsink (WHD) and Martin Čihák (SPR)

Discussions were held virtually during November 11–December 1, 2021, and at different times during January-June 2022. The mission comprised Alejandro Santos (head), Bas Bakker (incoming mission chief), Julian Chow, Marina Rousset, Paola Aliperti (all WHD), Alberto Soler (FAD), Chuling Chen (SPR), Ana Carvalho (MCM), José Daniel Rodríguez-Delgado (STA), Francisco Figueroa (LEG) with support from Madina Toshmuhamedova (WHD). Alfredo Macia (OED) also participated. The mission met with Minister of Economy and Finance Héctor Alexander, Superintendent of Banks Amauri Castillo, and other senior officials and private sector representatives. Interpretation services were provided by Hilda Tejada and Joyce Denton.

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APPENDIX

Acronyms

AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BNP	National Bank of Panama (*Banco Nacional de Panamá*)
CFZ	Colon Free Zone
COVID-19	Coronavirus Disease 2019
DGI	Revenues General Directorate (*Dirección General de Ingresos*
DNFBP	Designated Non-Financial Business and Professions
DSA	Debt Sustainability Analysis
EESI	External Economic Stress Index.
FAP	Sovereign Wealth Fund (*Fondo de Ahorro de Panamá*)
FATF	Financial Action Task Force
FES	Fund for Economic Stimulus
FDI	Foreign Direct Investment
FIU/UAF	Financial Intelligence Unit (*Unidad de Análisis Financiero*)
FSAP	Financial Sector Assessment Program
IMAE	Monthly Index of Economic Activity
INEC	National Institute of Statistics and Census
IT	Indicative Targets
LOLR	Lender of Last Resort
MEF	Ministry of Economy and Finance of Panama
ML/TF	Money Laundering and Terrorism Financing
NEER	Nominal Effective Exchange Rate
NFPS	Non-Financial Public Sector
NIIP	Net International Investment Position
NPL	Non-performing Loan
NSC	National Statistical Council
NSDP	National Summary Data Page
PFM	Public Financial Management
PLL	Precautionary and Liquidity Line
REER	Real Effective Exchange Rate
RFI	Rapid Financing Instrument
ROSC	Report on the Observance of Standards and Codes
RTGS	Real-time Gross Settlement System
SBP	Superintendency of Banks of Panama
SDDS	Special Data Dissemination Standard
SFRL	Social and Fiscal Responsibility Law
SSNF	Superintendency of Non-Financial Entities (*Superintendencia de Sujetos No Financieros*)

RECENT DEVELOPMENTS

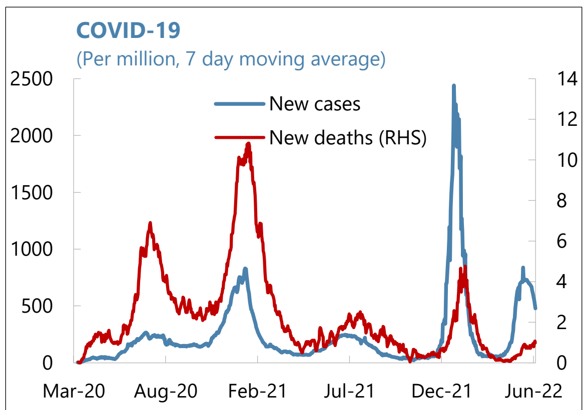
1. **The Fund has provided significant support to Panama following the outbreak of the pandemic.** Panama benefitted from financial support under the Rapid Financing Instrument (RFI) for 100 percent of quota (SDR 0.377 billion or about US$0.5 billion) approved by the IMF Executive Board on April 15, 2020 at the early stages of the pandemic.[1] Panama's economy contracted sharply in 2020 against the backdrop of a global recession and stringent measures to contain the COVID-19 pandemic, prompting the authorities to request a two-year Precautionary and Liquidity Line (PLL) arrangement for 500 percent of quota (SDR 1.884 billion or about US$2.7 billion) as an insurance against further extreme external shocks. The PLL was approved by the IMF Executive Board on January 19, 2021, and the First PLL Review was completed by the IMF Executive Board on July 28, 2021.[2] As part of the SDR allocation to all IMF members, Panama received an allocation amounting to SDR 0.361 billion (about US$0.5 billion) on August 23, 2021. All in all, the Fund has provided support to Panama for over 6¼ percent of GDP since the beginning of the pandemic.

IMF Support

Instrument	Millions SDR (US$)	Percent Quota (GDP)	Other Date (Type)
RFI 1/	377 (515)	100.0 (1.0)	15-Apr-20 (Disbursed)
PLL 2/	1,884 (2,713)	500.0 (4.5)	19-Jan-21 (Precautionary)
SDR Allocation	361 (512)	95.8 (0.9)	23-Aug-21 (Unused)
Total	**2,622 (3,740)**	**695.8 (6.3)**	**… (…)**

Source: IMF.
1/ Rapid Financing Instrument.
2/ Precautionary and Liquidity Line.

2. **Panama is currently experiencing a fifth COVID-19 wave, but mortality remains well below previous waves.** The fourth wave (Omicron variant) peaked in February 2022. In terms of daily cases, this was the strongest wave, but the number of deaths was about ½ of the previous peak observed during the second wave (Delta variant) a year before. The lower mortality is likely the result of the aggressive vaccination campaign, with the vaccination rate exceeding 71 percent (for fully vaccinated people) with over 8 million

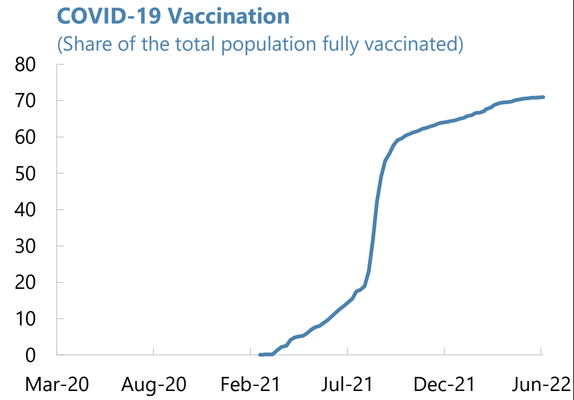


Sources: Johns Hopkins University CSSE COVID-19 Data, official data collected by Our World in Data and IMF staff calculations.

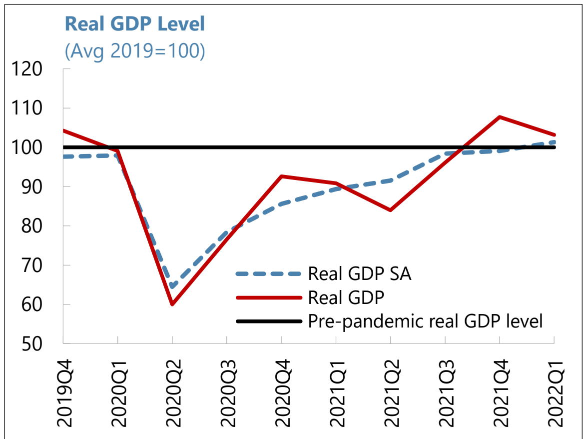
[1] The RFI resources entered the government's deposits at the National Bank. Subsequently, the authorities used US$500 million from their deposits to finance the Fund for Economic Stimulus (FES) to support bank liquidity (similar to a dual lender of last resort and credit facility). As of end-May 2022 no bank has used the liquidity facility.

[2] One half of the PLL amount (i.e., SDR 942 million) was available after approval, and the full amount (i.e., SDR 1,884 million) will become available after completion of this review.

administered doses as of end-May 2022. A fifth wave started in April 2022, but new deaths have fortunately remained low.



Sources: Johns Hopkins University CSSE COVID-19 Data, official data collected by Our World in Data and IMF staff calculations.



Source: INEC and IMF staff calculations.

3. The economic recovery remains strong. Real GDP contracted by an unprecedented 17.9 percent in 2020 (the largest contraction in recorded history) and the unemployment rate spiked to 18½ percent as the economy was severely affected by the COVID-19 pandemic and the ensuing containment measures. The strong economic rebound that started in the second half of 2020, continued throughout 2021 as COVID-related restrictions were gradually eased. Quarterly GDP surpassed pre-pandemic levels in Q4-2021, and real GDP grew by 15⅓ percent for the year as a whole. The unemployment rate fell to 11¼ percent in October 2021. Panama's recovery has maintained its momentum in 2022, with real GDP expanding by 13.6 percent (y/y) in the first quarter.

4. Inflation is rebounding due to supply shocks. Rising global food and energy prices have contributed to rising inflation, although it remains modest compared with other countries. Inflation, which had hovered around -2 percent during much of 2020, started to increase from December 2020 onward, largely driven by higher food and energy prices. By December 2021, it had reached 2.6 percent and by May 2022, 4.2 percent. However, core inflation has remained subdued at 1.1 percent.

5. A gradual fiscal adjustment is underway as envisaged in the fiscal rule. The NFPS deficit fell from 10½ percent in 2020 to 5½ percent of GDP in 2021—below the limit established by the fiscal rule (i.e., a fiscal deficit between 7 and 7½ percent of GDP). The bulk of the improvement in the fiscal accounts in 2021 (about ¾) was due to higher revenues, with cyclical gains on taxation explaining almost ½ of the additional receipts and the remaining amount due to a number of one-offs measures (including capital gains, Canal contributions and tax amnesty).[3] A smaller part of the fiscal deficit reduction in 2021 (about ¼) was due to expenditure restraint, mostly in the form of lower non-COVID-19 spending as COVID-19 spending was kept at the same level as the year before

[3] Part of the improvement in revenues in 2021 is due to the issuance of a bond above par with a premium of US$241 million (about 0.4 percent of GDP) which was recorded as non-tax revenue, following the (mostly cash) methodology of the 1986 GFS manual (used by the authorities). The authorities are receiving technical assistance from FAD and CAPTAC to migrate their fiscal accounting system to the newer (mostly accrual) 2014 GFS manual.

(about 2½ percent of GDP).[4] Fiscal consolidation continues to gain momentum in 2022. Preliminary data for Q1-2022 show a reduction in the NFPS deficit relative to Q1-2021Q1, from 1.8 to 1.5 percent of GDP. This was achieved mainly due to enhanced tax revenue collection (up by 20 percent y/y, or about 3 percent of 2021Q1 GDP) and restrained current spending growth (by 0.4 percent y/y), despite a pronounced increase in capital expenditure execution (by 65 percent y/y, or about 2.7 percent of Q1-2021 GDP). The latter was concentrated in investment spending and social spending via *Panamá Solidario* (COVID-19 related spending is reported by MEF primarily within capital expenditure[5]).

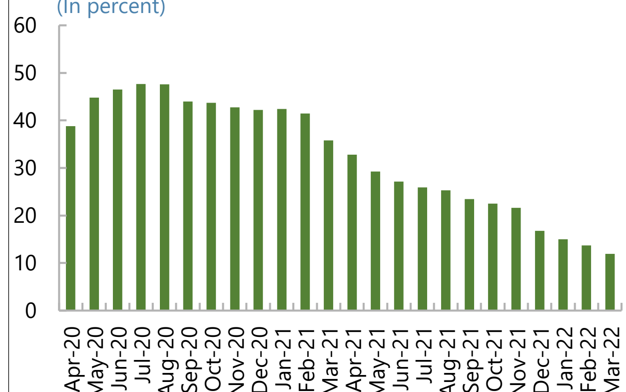
Fiscal Deficit Reduction for 2021
(NFPS, in billions of U.S. dollars)

	2020	2021	Change Δ	Share (%)
Revenues	**9.9**	**11.6**	**1.7**	**79.3**
Defered income tax 1/	...	...	0.1	6.5
Tax amnesty	...	...	0.2	7.4
Lockdown (Jan 2021) 2/	...	...	-0.1	-4.7
Capital gains 3/	...	...	0.2	11.2
Other one-offs 4/	...	...	0.2	7.4
Canal contribution	...	...	0.2	10.7
Cyclical effects	...	...	0.9	40.7
Expenditures	**15.5**	**15.1**	**-0.4**	**-20.7**
COVID-19 related	1.6	1.6	0.0	-0.2
Non-COVID-19 related	13.9	13.5	-0.4	-20.5
Current primary	9.6	9.5	-0.1	-2.4
Interest payments	1.4	1.5	0.1	5.8
Capital expenditure	2.9	2.4	-0.5	-23.8
Fiscal Balance	**-5.7**	**-3.5**	**2.1**	**100.0**
(Percent of GDP)	-10.5	-5.5	5.0	...

Source: MEF and IMF staff.
1/ One of the three income tax statements for 2020 was delayed to 2021.
2/ Fiscal year 2020 was extended due to the lockdown.
3/ Bond placed above par.
4/ One-off measures in consolidated agencies.

6. The banking sector continues to be resilient although some challenges remain. The moratorium on servicing bank loans formally ended in June 2021 but bank borrowers were given until end-September 2021 to reach agreement with banks on a payment schedule for their modified loans. The NPL ratio rose slightly to 2.5 percent in March 2022, from 2.3 percent at end-2021. Nonetheless, the ratio of loan-loss provision-to-NPL remained high, at 157 percent in March 2022. In addition, loans modified under the moratorium were increasingly being serviced as the share of modified loans-to-total loans fell significantly to 11.9 percent in March 2022 (from its peak of 47½ percent in July 2020 during the height of the pandemic), indicating that the restructuring of these loans between banks and affected borrowers has been successful. At the end of March 2022, total regulatory capital adequacy ratio

Modified to Total Loans Ratio 1/
(In percent)



Source: SBP.
1/ Based on the local portfolio.

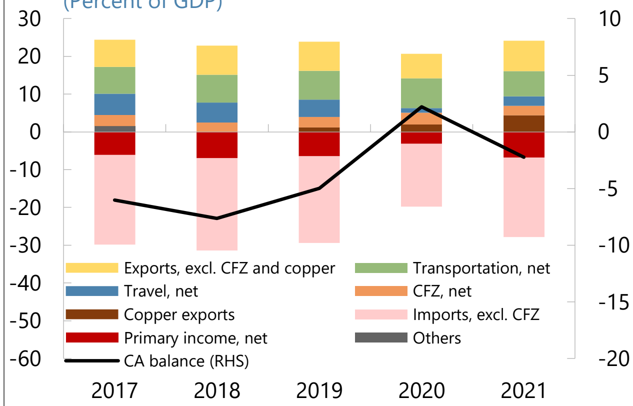
[4] The authorities made payments for US$0.7 billion in 2021 (about 1 percent of GDP) for expenditures that took place in previous years. Staff estimates that about ¾ is related to expenditures that took place in 2020 and remaining amount in 2019. The fiscal accounts reflect these accrual adjustments.

[5] While social spending via *Panamá Solidario* should be reported as a current transfer, a large share of this spending has in practice been captured in capital expenditure since the start of the pandemic due to classification issues.

stood at 15.3 percent (15.8 percent as of end-2021), against a minimum requirement of 8 percent. Liquidity remained high as short-term assets covered 58.5 percent of short-term deposits as of end-May 2022, almost double the regulatory minimum of 30 percent. The moratorium served as a buffer to prevent a severe credit contraction when the economy was collapsing in 2020 and is helping to normalize credit relationship now that the economy is rebounding. For that reason, private credit is recovering, growing at 3.2 percent (y/y) in March 2022 compared to a growth of 1.5 percent at end-2021, reflecting improving demand for loans by the private sector as the economy recovers.

7. **The external position remains strong.** The current account balance switched from a surplus of 2 ¼ percent of GDP in 2020 to a deficit of 2¼ percent of GDP in 2021, mainly driven by a recovery in imports which offset stronger exports from copper and the Colon Free Zone. The trade deficit continued to widen in Q1-2022 as imports surged more than 50 percent compared to Q1-2021, on the back of higher oil and food prices. Capital inflows (mostly in the form of foreign direct investment) have helped to finance the current account deficit and reinforced external buffers. The external position was assessed in the 2021 Article IV consultation to be moderately stronger than the level implied by fundamentals and desirable policy settings, confirmed by a recent update (Annex II). Moreover, the real effective exchange rate has depreciated since 2020 and remained stable.

Current Account
(Percent of GDP)



Source: INEC and IMF staff calculations.

8. **In October 2021, the FATF expressed significant concern that Panama had failed to complete its action plan.** The FATF strongly urged Panama to swiftly demonstrate significant progress in completing its action plan by June 2022 or the FATF would consider next steps, which could include the FATF calling on its members and urging all jurisdictions to apply enhanced due diligence to business relations and transactions with Panama. At the closing of the March 2022 plenary, the FATF continued urging Panama to demonstrate significant progress in completing its action plan by June 2022.

9. **Since the first PLL review, Panama has made important progress, although not enough to be removed from the FATF grey list.** The authorities have intensified their efforts to strengthen the effectiveness of their AML/CFT regime (see policy section). At the plenary meeting in June 2022, the FATF increased the number of "largely addressed" action items from 8 to 11 (out of 15; and 5 at the time of the first review)[6], but repeated its concern that Panama had not fully

[6] These numbers were announced by the FATF president during the press conferences following the FATF plenary meetings which were broadcast on YouTube and subsequently reported in newspapers.

implemented its action plan.[7] In other areas of financial integrity, new legislation (approved in November 2021) will help ease concerns of partner countries and strengthen the exchange of tax information.[8]

OUTLOOK AND RISKS

10. Sustained growth, benign inflation, and strong fiscal and external positions are expected over the medium term.

- ***Growth.*** Economic recovery is underway and the strong growth momentum from 2021 (real output growth of 15⅓ percent for the year) is expected to continue into 2022, with real GDP expanding by 7½ percent. Economic activity will be further bolstered by the resumption of the construction of a new metro line, and recovering private investment Over the medium term, growth is expected to moderate to its estimated potential growth rate of 5 percent.

- ***Inflation.*** Headline inflation is expected to increase to 4 percent (y/y) by end-2022 following global trends, mostly due to food and fuel supply shocks, and gradually decline to 2 percent (y/y) over the medium term.

- ***Fiscal.*** The 2022 budget approved by the National Assembly is broadly consistent with a fiscal deficit of 4 percent of GDP (down from 5½ percent in 2021). The reduction, which is in compliance with the fiscal rule, is driven by both higher revenue (due to cyclical factors and additional proceeds from the Panama Canal), and expenditure moderation. Beyond 2022, the fiscal deficit is expected to fall to 3 percent of GDP in 2023 and gradually converge to the medium-term target of 1½ percent of GDP by 2025. The reduction in the fiscal deficit will result from revenue administration improvements and a moderation of primary expenditure growth.

- ***External.*** The current account deficit is projected to widen to about 3½ percent of GDP in 2022, as an acceleration of imports (in particular oil) more than offset a recovery of tourism exports (from the low levels in 2020-21). Over the medium term, the current account deficit is projected to narrow to 2½ percent of GDP by 2027 as tourism and trade from the Colon Free Zone recover to historical levels. From a saving-investment perspective, the gradual reduction in the current account deficit over the medium term will be driven by a moderation of private investment (from the boom of the last decade) and a strengthening in domestic savings (following the pandemic).

[7]"The FATF again expresses significant concern that Panama failed to complete its action plan, which fully expired in January 2021. The FATF strongly urges Panama to swiftly complete its action plan by October 2022 or the FATF will consider calling on its members and urging all jurisdictions to apply enhanced due diligence to business relations and transactions with Panama."

[8] The EU added Panama to its list of non-cooperative jurisdictions for tax purposes in February 2020, citing non-compliance with global transparency criteria, notably shortcomings in its tax information exchanges. Some of these concerns are expected to be reduced following recently approved legislation that will generate additional tax information that would be exchanged with partner countries.

11. The balance of risks remains tilted to the downside. The economic outlook continues to be subject to an unusual degree of uncertainty arising from global vulnerabilities that emanate from the escalation of the Ukrainian-Russian conflict, inflationary pressures that could prompt central banks to tighten policies faster than anticipated, higher crude oil prices, and more contagious mutations of the COVID-19 virus which may curtail the effectiveness of vaccines (Annex V). Specifically:

- ***Slowdown.*** A slowdown of the global economy and an intensification of the war in Ukraine and attendant sanctions to Russia would give a negative impulse to the world economy and trade, and lead to higher fuel prices, which could adversely affect Panama's Canal traffic and inflation. In addition, faster-than-anticipated tightening of monetary policies could result in market dislocations and spikes in sovereign bond yields, leading to a disruption of external financing and a further increase in financing costs. A resurgence of the pandemic, triggered by the spread of new variants, could derail the economic recovery in t major trading partners, prompting a reduction in global demand for Panama's exports and shipping activities via the Canal. Heightened risks associated with a worsening of the COVID-19 pandemic could jeopardize global trade and capital flows.

- ***Listings.*** Insufficient progress in implementing measures with respect to the items in the Action Plan designed to improve the effectiveness of the AML/CFT regime has prevented the removal of Panama from the FATF grey list. This, along with lack of progress in removing Panama from the EU list of non-cooperative jurisdictions for tax purposes, could potentially affect correspondent banking relationships and key overseas credit channels, threatening financial stability.

- ***Security and climate risks*.** Cyberattacks could bring significant disruptions to digital infrastructure, while more frequent and severe climate-change related natural disasters could adversely affect Canal activity, agriculture and tourism.

REVIEW OF PLL QUALIFICATION

12. Economic fundamentals and institutional policy frameworks remain sound while policy commitments to address remaining vulnerabilities are strong. Since the approval of the PLL in January 2021, and the completion of the First PLL Review in July 2021, economic indicators have continued to improve, and fundamentals, institutional settings and buffers remain strong. Policy performance remains very strong as the authorities are firmly commitment to recalibrating policy responses to safeguard macroeconomic and financial stability, address FATF's concerns, and strengthen data adequacy. The sound policies are underpinning the post-pandemic recovery (see Annex I for a general assessment of Panama's qualification under the PLL). The Executive Board gave a generally positive assessment of Panama's policies in the context of the 2021 Article IV Consultation. However, the delays in fully implementing the FATF action plan highlight the importance of continued adoption of supportive measures in this area, calling for a prior action on this issue.

13. Panama continues to meet the PLL qualification criteria. Panama performs strongly in three out of the five PLL qualification areas (external, fiscal and monetary) and does not substantially underperform in the other two areas (financial sector and data adequacy) (see Annex II for a detailed assessment of specific PLL criteria for Panama). The financial sector remains sound as banks continue to be well capitalized and liquid.[9] The main reason for not performing strongly in this area is that Panama remains on the FATF grey list and has not yet addressed all the items on its action plan, underscoring the need for timely supportive measures to largely address remaining items in the FATF action plan (expected for end-2022. On data adequacy, the authorities are strengthening their efforts and Panama is on-track to achieve SDDS status (see Box 3) (expected for end-2022), which would increase the PLL qualification areas from three to four. The recent publication of the data template for international reserves and foreign currency liquidity as well as fiscal data is an important step toward SDDS subscription.

PERFORMANCE UNDER THE PLL ARRANGEMENT

14. Indicative targets. All indicative targets for this review continued to be met, with large margins.

- ***Government deposits coverage.*** The national government deposits at the National Bank of Panama (BNP) stood at US$2.6 billion at end-September 2021 and US$4 billion at end-March 2022, well above the minimum indicative target of US$1.0 billion.[10]

- ***Public banks liquidity buffers.*** The targets for the official (state-owned) banks' liquidity were also met. The ratio of the liquid assets (up to 186 days) of official banks to the total net deposits (up to 186 days) of the same banks stood at 80½ percent at end-September 2021 and 82.2 percent at end-March 2022, well above the minimum indicative target of 30 percent.[11]

15. Structural benchmark. Progress continues to be made in implementing the structural agenda.

- ***Reserve template.*** The end-September 2021 structural benchmark on publishing the data template on International Reserves and Foreign Currency Liquidity was timely met as the authorities provided the relevant information to STA and published it in the National Summary Data Page (NSDP).

[9] The Fund has supported the authorities' policies by providing technical assistance on bank regulation, and macroprudential policy.

[10] The large increases in government deposits are due to large global bond issuances (i.e., US$5 billion in 2020 and US$5½ billion in 2021) to enhance overall liquidity in the economy given elevated risks and uncertainties and also to prefinance debt payments, which staff views as appropriate given the absence of a Central Bank and a lender of last resort. In the past, government deposit had been close to (and even below) US$1 billion (i.e., during the Global Financial Crisis).

[11] Similarly, the high liquidity in official banks' reserves buffer is also due to the largest global bond issuance by *Banco Nacional de Panama* (i.e., US$1 billion in 2020). Panama's susceptibility to downside risks remains, while global uncertainties persist.

- ***AML/CFT measures***. The end-October 2021 structural benchmark on adopting measures to strengthen the effectiveness of the AML/CFT regime to support the country's efforts to exit the FATF list of jurisdictions with strategic deficiencies (i.e., FATF grey list) was not met as the authorities had only made limited progress in implementing the remaining items on the FATF action plan at that time. Unsatisfactory progress in strengthening the AML/CFT regime ultimately led to the delay of the 2nd review under the PLL arrangement. However, important progress has been achieved since then that justifies the completion of the second review, including the expected observance of the prior action on uploading at least 18,000 companies to the ultimate beneficial ownership registry (see the policy section).

- ***Fiscal data.*** The end-March 2022 structural benchmark on resuming quarterly publication of the fiscal operations of the Central Government and the General Government, which are elaborated by the Ministry of Economy and Finance, adding detailed financing data, at the National Institute of Statistics (INEC) was observed ahead of time at end-November 2021.

16. Prior Action. To continue strengthening the AML/CFT regime, including the effectiveness of the ultimate beneficial ownership registry and information on resident agents, the Superintendency of Non-Financial Entities ("Superintendencia de Sujetos No Financieros-SSNF") will undertake a process of identification and compilation of information, maintained by law firms acting as resident agents, on companies and their beneficial owners and upload at least 18,000 companies to the registry, with the corresponding beneficial ownership information.

POLICIES UNDER THE PLL

17. The authorities remain committed to strong policies to support the recovery. The authorities continue to intensify the COVID-19 vaccination program to increase the vaccination rate and reach all segments of the population. Efforts to reduce poverty and inequality, broaden social inclusion, enhance productivity and adhere to national climate change strategies are accelerating now that the economic recovery is gathering momentum. Specifically, to mitigate the impact of rising food and energy prices on the poor, the government extended and expanded its electricity subsidy program through June 2022 and continues its program of social support transfers via *Panamá Solidario*.

18. Re-anchoring fiscal policy. The authorities are fully committed to the fiscal rule, which would require improvements in tax administration to guide a process of gradual fiscal adjustment that ensure debt sustainability and minimizes its impact on growth over the medium term.

- ***The 2022 budget is also in line with the fiscal rule but subject to risks***. The 2022 budget is consistent with a 4 percent of GDP deficit, in compliance with the fiscal responsibility law (SFRL). The authorities have a fairly optimistic revenue projection, relying on an cyclical improvement in tax collection, and a higher rate of expenditure execution, due both to higher planned capital spending and delayed execution amid lockdowns. The improvement in public revenues of 1½ percent of GDP in 2022 is due to: (i) cyclical factors (36 percent); (ii) higher contributions from the Panama Canal (20 percent); (iii) mining royalties (16 percent); (iv) improvements in tax administration (16 percent); and (v) sales of land to the Canal (12 percent). Revenue administration measures to be implemented in 2022 include an enhancement in the estimation and collection procedures of labor income withholdings, the implementation of the *Placef* system to receive data flows on transactions in real time, better systems for the recovery of tax debt and the expedition of judiciary processes for tax delinquency. The authorities recognize that on the revenue side, there is a risk of lower tax collections, while capital revenues from land divestitures could surprise on the upside. On the expenditure side, they acknowledged that some budgetary spending items were on the conservative side and could be significantly lower. In any case, the authorities reiterated their commitment to adhere to the 4 percent of GDP target under the fiscal rule, including by taking the necessary expenditure measures through a dynamic adjustment of the budget which in previous years has taken the form of lower capital spending. The authorities are in the process of preparing the 2023 budget with a deficit of 3 percent of GDP in line with the fiscal rule.

- ***Staff also projects the fiscal deficit to be in line with the fiscal rule*, at 4 percent of GDP in 2022.** Compared to the budget, staff projects receipts to be lower by 0.7 percent of GDP, interest payments to be lower by 0.3 percent of GDP, and primary spending to be lower by 0.3 percent of GDP (mostly related to overestimated social security outlays) (see columns B, C and D in the text table). Relative to 2021, staff estimates revenues to improve by about 1½ percent of GDP (mostly from cyclical factors, higher Canal contributions and mining royalties), and expeditures to remain broadly unchanged as a percent of GDP (with significantly lower COVID-19 spending offset by an expansion of other primary expenditure), to achieve a deficit reduction of 1½ percent of GDP (y/y) leading to a deficit of 4 percent of GDP in 2022 (see columns A, C and E in the text table).

Fiscal Accounts
(In percent of GDP)

	2021	2022		Differences (Δ)	
	(A) Actual	(B) Budget	(C) Proj.	(D) =(C-B)	(E) =(C-A)
Revenues	**18.2**	**20.4**	**19.7**	**-0.7**	**1.6**
Current revenues	18.2	19.6	19.2	-0.4	1.0
Tax revenues	7.1	8.4	7.8	-0.6	0.7
Non-tax revenues	11.1	11.2	11.4	0.2	0.3
Capital revenues	0.0	0.9	0.6	-0.3	0.6
Expenditures	**23.7**	**24.4**	**23.7**	**-0.7**	**--**
COVID-19 related	2.5	0.9	0.9	--	-1.6
Non-COVID-19 related	21.2	23.5	22.8	-0.7	1.6
Current primary	15.0	15.8	15.5	-0.3	0.5
Interest payments	2.4	2.9	2.6	-0.3	0.2
Capital expenditure	3.8	4.8	4.8	--	1.0
Fiscal Balance	**-5.5**	**-4.0**	**-4.0**	--	**1.5**

Source: MEF and IMF staff.

- ***The medium-term fiscal framework includes improvements in tax administration and tax policy measures***. Fiscal consolidation, to be articulated around a full-fledged medium-term fiscal framework will primarily be based on an improvement in revenue administration (with ongoing modernization processes in the tax office (DGI) and Customs) and primary expenditure growth below nominal GDP rates.[12] The authorities are also considering broadening some tax

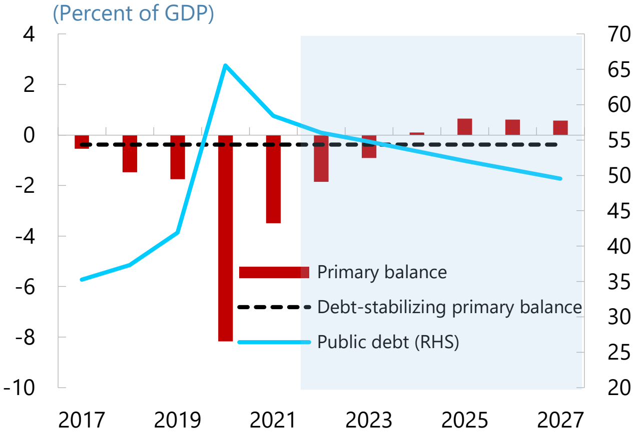
[12] Potential revenue mobilization gains from enhancements in tax administration and the efficiency of the tax system are relatively large. Annual tax evasion is estimated at around 8 percent of GDP, and the authorities have identified

(continued)

bases, principally by removing some corporate income tax (CIT) exemptions and setting a minimum CIT effective rate, and eliminating some value added tax (VAT) exemptions. According to DGI's estimates, these measures could yield around US$1.3 billion over the period 2022–25 (about 2 percent of GDP). Articulating all these initiatives around a revenue mobilization strategy will require further capacity building, principally on revenue forecasting, the development of a Large Taxpayer Unit in the DGI, and the transparent monitoring of improvements through meaningful performance indicators. The Fund is providing technical assistance in these areas and stands ready to support the preparation of a full-fledged medium-term program of revenue mobilization. The authorities are committed to provide adequate resources to achieve these priorities.

- ***Debt sustainability is secured by the fiscal rule***. Strong implementation of the fiscal rule guarantees debt sustainability over the medium term. The adherence to the deficit path targeted by the fiscal rule will ensure a reduction in NFPS debt from 65½ percent of GDP in 2020 to 49½ percent of GDP in 2027. This will be possible because the primary fiscal balance envisaged under the fiscal rule (a surplus of around 0.6-0.7 percent of GDP in 2025 and thereafter), is much higher than the debt-stabilizing primary balance (a deficit of around 0.4 percent of GDP, see Annex III for a detailed debt sustainability analysis).

Primary Balance and Public Debt
(Percent of GDP)



Source: MEF and IMF staff calculations.

19. Enhancing financial integrity. Exiting the FATF's grey list is key to preserving Panama's position as a regional financial center. The authorities are committed to implementing all the remaining items on the FATF action plan by end-2022 to exit the grey list. To this end, the authorities have already taken decisive steps to implement critical measures.[13]

- ***Application of risk-based supervision to the designated non-financial business and professional sector.*** Panama achieved significant progress with respect to the implementation of its supervision plan, increasing the number of onsite and offsite supervisions (largely in high-risk sectors) as well as the follow-up actions by the Superintendency of Non-Financial Entities (SSNF) after onsite inspections.

tax arrears accumulated over the last few years of close to 4 percent of GDP. Fighting tax evasion will require significantly strengthening risk-based monitoring and inspection activities, which entails financial investments in the near term with substantial medium-term returns. The rationalization of tax expenditures (estimated at close to 4 percent of GDP) is another important area where further work would be fruitful. Staff estimates of the combined budgetary impact of these workstreams is conservative at about 2 percent of GDP (cumulatively until 2027).

[13] The authorities reported to staff 28 significant measures on AML/CFT issues implemented since the first PLL review in July 2021; some of them are captured in the bullets above.

- ***Use the Practical Guide for Parallel Financial Investigations***. Since the issuance of the Guide, the authorities have demonstrated the use of the Guide to initiate and carry out a vastly increased number of parallel financial investigations which have generated concrete results.

- ***Approval of Law 254***. This legislation addresses the shortcomings identified by the FATF in solving remaining legal impediments to the implementation of several other remaining action items in the FATF action plan. This legislation was approved by the National Assembly on October 26, 2021 and enacted by President Cortizo on November 11, 2021.

- ***Update the sectoral risk assessment***. The authorities identified risks in different sectors and conducted a training for disseminating the results of the assessment as well as a mitigation strategy to address the identified risks. The sectoral risk assessment was approved by the authorities on November 23, 2021, and launched in an event with the World Bank, GAFILAT and private stakeholders on December 6, 2021.

- ***Implementation of the Supervision Manual***. The effective implementation of the SSNF supervision manual and the recent strengthening of the sanctioning regime have resulted in the identification of noncompliance issues and the imposition of sanctions, respectively, as well as an increase in the number of suspicious transactions reported to the financial intelligence unit. In addition, Panama increased the number of follow-up supervisory activities during Q1-2022.

- ***Improvement of risk-based monitoring and supervision of corporate sector***. Supervisory activities by the SSNF have been expanded. Specifically, Panama increased significantly the number of onsite and offsite inspections and increased the number of inspections planned for the rest of 2022, prioritizing high-risk resident agents.

- ***Focus on money laundering investigations in high-risk areas***. As a result of the 36 relevant cases prosecuted by Panama, which are related to high-risk areas other than drug-trafficking, 8 arrest warrants have been issued by a judge, 231 persons have been accused, and assets were confiscated for an amount exceeding US$60 million derived from 27 of the 36 cases. In another 7 cases, assets were confiscated for an approximate amount of US$30 million.

- ***Compiling beneficial ownership information***. The authorities designed and implemented a computer system to collect beneficial ownership information for active firms incorporated in Panama. The system began operations in early April 2022. As of June 27, 2022, the authorities have collected beneficial ownership information for 18,922 firms. The authorities hope to continue with this process in the following months until they compile beneficial ownership information for all the active registered firms, following law 254. This measure will help in addressing at least one of the remaining items of the FATF action plan.

- ***In addition, the authorities are committed to implement the remaining items in the FATF action plan by the end of 2022 to strengthen the effectiveness of their AML/CFT regime to support the country's efforts to exit the FATF list of jurisdictions with strategic deficiencies.***

The authorities also continue working with their EU partners to resolve Panama's blacklisting as a non-cooperative jurisdiction for tax purposes; implementation of law 254 (which requires corporate entities to report their activities abroad to the tax authority) will go a long way in addressing outstanding issues with the EU.

20. Fortifying financial stability. Continued tight supervision and monitoring are needed to safeguard financial stability. Staff reiterated the importance of a risk-focused loan portfolio examination of all banks, including an assessment of fundamental asset quality, to help assess banks' credit risk and capital buffers. Frequent monitoring of the modified loans and progress in restructuring these loans will help underpin the recalibration of the provisioning requirement on modified loans. In this vein, the authorities should stand ready to increase the provisioning requirement—particularly for banks with high exposure to these modified loans—to ensure sufficient buffers to absorb potential credit losses and safeguard financial stability. In the medium term, implementing the Basel III capital conservation buffer and net stable funding ratio would strengthen financial stability and enhance banks' capital and liquidity buffers. In addition, expanding the macroprudential policy toolkit would help increase resilience to adverse events at any point in the business cycle and prevent substantial disruptions in credit and other vital financial services to ensure stable economic growth. The authorities have requested technical assistance from the Fund to enhance the regulatory, supervisory, and macroprudential policy frameworks. A Financial Sector Assessment Program (FSAP) is planned for 2023.

21. Improving public financial management. All the arrears identified in the stocktaking exercises of 2019–20, have been settled. Moreover, MEF is implementing a comprehensive PFM Action Plan to avoid the resurfacing of arrears in the future, by addressing all their sources and their misreporting.[14] Work on a key milestone of this Action Plan, the approval of the General Budget Law, is well advanced and a draft was submitted to the Assembly in January 2022. The Law, that will be approved together with the 2023 budget will upgrade PFM practices through: (i) a new performance-based budgeting framework to avoid incremental pressures on spending; (ii) a medium-term budget framework as the basis of multi-annual programming, with binding ceilings for the first year and indicative for the outer years; (iii) more flexible procedures to transfer the payment of authorized spending commitments to next year's budget; (iv) stating the nullity of any spending commitment above budget appropriations, and strengthening sanctions.[15] The implementation of the Law will be supported by the Fund's technical assistance, which will also cover other elements of the Action Plan such as expenditure control and accounting.[16] Further progress on fiscal transparency is also needed, particularly when it comes to data integrity

[14] In fact, accrued accounts payable in 2020 could not be settled until September 2021, which is indicative of persistent weaknesses in the verification and payment of commercial debt.

[15] Multi-year programming will facilitate expenditure controls by Contraloria, particularly when it comes to the authorization of appropriation carry-overs into next year's budget.

[16] Another relevant step towards the strengthening of expenditure control is the enhanced interoperability between ISTMO, the main financial management system, the Treasury and the Contraloria's system, that will speed up and fully automate commitment authorizations.

of quarterly fiscal reports, their compliance with accrual criteria and clarity of budget documentation.[17] The final COVID-19 audit for the period 2020–21 should be completed and published.[18]

22. Strengthening data adequacy. The authorities' continuous effort in data adequacy helped achieve the statistical-related structural benchmarks ahead of time and advance strongly toward SDDS subscription (Annex VI). The authorities continue to implement the recommendations of the 2020 ROSC mission by revamping the National Statistical Council (NSC), and continue to be committed to statistical improvement, including subscription to the SDDS. The strengthening of the NSC will underpin the implementation of the National Statistical Plan for 2021–25 and support the coordination among data users and data providers. The statistical structural benchmark to resume quarterly publication of Fiscal Operations of Central Government and General Government, adding financing data, at the National Statistics Institute was met at end-November 2021, ahead of its March 31, 2022 target. This step also contributes to Panama's efforts toward SDDS subscription. Further, underpinned by cross-agency collaboration (MEF, SBP, INEC, BNP), Panama has resolved most of the pending data dissemination SDDS requirements. Recent advances include the timely dissemination of the reserve template (structural benchmark), depository corporation survey, interest rates including rates of government securities and fiscal data (as mentioned above) (Box 3). The authorities' ongoing efforts to secure timely source data will help improve the timeliness of the IMAE (production index) in line with SDDS requirements, a key pending requirement (see Annex IV).

PLL ISSUES

23. No third PLL review. Given the delays in completing the second PLL review, and the fact that the review covers the next six-month period, there will not be time to complete the third review as the PLL arrangement ends on January 18, 2023 and cannot be extended. Therefore, there will not be a third review under this PLL arrangement.

24. Capacity to repay the Fund. Should Panama draw on the entire amount available, it would have adequate capacity to repay the Fund, while credit and liquidity risks to the Fund would remain low (Table 9). Whereas the authorities continue to treat the PLL arrangement as precautionary, in the event of a drawdown, Fund obligations would represent only a small share of Panama's total external debt (a maximum of 2.7 percent over the projection period), gross international reserves (30.5 percent), and exports (10.2 percent). The authorities have excellent track record of servicing their debt obligations.

25. Safeguards assessment. The National Bank (BNP) has implemented all the recommendations from the first-time safeguards assessment completed in September 2020. In particular, the legal framework for operationalizing the FES has been approved, and a plan to

[17] The authorities have requested the Fund a Fiscal Transparency Evaluation to provide a comprehensive diagnostic of weaknesses in this area.

[18] For more detailed information on ongoing PFM improvements, see the Staff Report for the 2021 Article IV Consultation.

strengthen control procedures to mitigate risks of misreporting is being established, building on a review by the internal audit function. Work is also in progress to start implementation of a capacity building plan to reinforce internal audit in line with international standards.

26. Exit strategy. Given the projected improvements in Panama's economic resilience and growth, the authorities intend to communicate their exit strategy from the PLL arrangement. Under the baseline scenario, by the end of the arrangement, the primary fiscal deficit would fall below the debt-stabilizing balance, greatly reducing the public sector financing needs, and public debt would be on a downward path, while the current account deficit would be close to what would be expected for an emerging market country like Panama. The authorities have affirmed their intention not to make permanent use of the PLL and intend to define and communicate their exit strategy, accounting for the continued strengthening in the economy’s buffers and policy space, as well as remaining structural reforms to improve competitiveness, reduce poverty and inequality, and address climate risks which will support healthy and inclusive growth and preserve Panama as an attractive destination for business. The authorities intend to continue to treat the PLL arrangement as precautionary and stressed the importance of the PLL arrangement at this juncture, especially in supporting public and external confidence in the stability of the financial sector.

STAFF APPRAISAL

27. Panama continues to meet the PLL qualification criteria. The IMF Executive Board’s assessment of Panama’s policies, in the context of the 2021 Article IV Consultation and First Review of the PLL Arrangement, was generally positive. Panama’s economic fundamentals and institutional frameworks remain sound. The country has a track record of—and is implementing—sound policies and has adjusted to unusually large shocks emanating from the pandemic as well other global headwinds. Panama remains committed to such sound policies in the future. Panama performs strongly in three out of the five PLL qualification areas (external, fiscal and monetary) and does not substantially underperform in the other two areas (financial and data).

28. Implementation of policies under the PLL arrangement remains on track. Panama has been adopting the policies under the PLL. As noted, the end-September 2021 and end-March 2022 indicative targets were both met, as well as the end-September 2021 structural benchmark on publishing the data template on International Reserves and Foreign Currency Liquidity, and the end-March 2022 publication of quarterly fiscal data. The end-October 2021 structural benchmark on adopting measures to strengthen the effectiveness of the AML/CFT regime was not met. However, significant actions have since been taken to strengthen it. Although external risks remain elevated, particularly from uncertainties arising from spillovers from the war in Ukraine, faster-than-expected monetary tightening, and evolution of the pandemic (including vaccine-resistant mutations of the COVID-19 virus), external imbalances have been contained and fiscal consolidation is on track as the authorities remain committed to fiscal discipline, adhering to the revised SFRL, and agreed on budgetary measures supported by IMF technical assistance. The gradual fiscal consolidation following the SFRL will ensure a decline in the NFPS debt burden to below 50 percent of GDP by 2027.

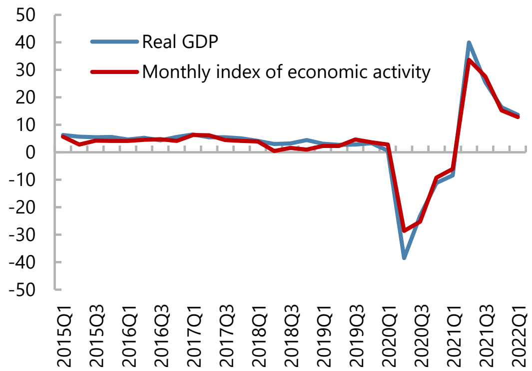
29. Measures to strengthen the policy and institutional frameworks are advancing. The authorities aim to bolster fiscal credibility through the implementation of the new General Budget Law. The new framework should facilitate a greater consistency between medium-term fiscal programming and the available fiscal space, while sharpening expenditure prioritization according to policy objectives and program performance. Furthermore, the risk of incurring future arrears should be much lower thanks to streamlined recognition of committed expenditure and multi-year expenditure control. The authorities have expressed interest in technical assistance on the development of a medium-term revenue mobilization program, revenue forecasting, the preparation of a medium-term budget, as well as the monitoring and risk-based audit of large taxpayers. The authorities are committed to continuing their effort to fortify the financial sector by intensifying regulatory supervision and monitoring of banks, along with internal macro-financial stress testing to ensure that risks are adequately captured, and capital adequacy and loan-loss provision are sufficient. The FSAP planned for 2023 will help identify any remaining gaps and the implementation of FSAP recommendations will be supported by IMF technical assistance. The authorities indicate that exiting the FATF grey list continues to be their top priority, given the country's role as a regional financial center. They are accelerating progress in implementing the FATF action plan with the goal of addressing all outstanding items by end-2022. They have also embraced the recommendations of the 2020 ROSC mission and are committed to statistical improvement, including subscription to the SDDS by end-2022.

30. Against this background, staff recommends the completion of the Second PLL Review. There will not be a third review as the PLL arrangement expires after six months, on January 18, 2023.

Figure 1. Panama: Real Sector Developments

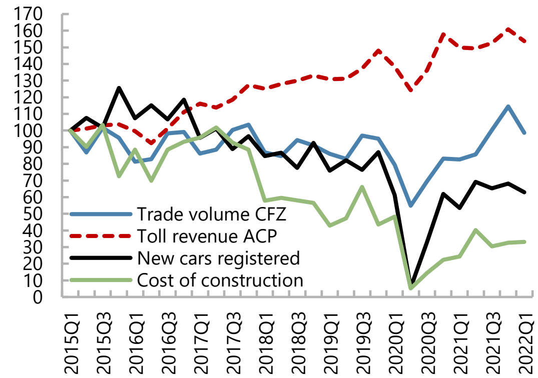
The economic contraction was sharp and especially drastic in Q2-2020, followed by a resolute recovery in 2021

Economic Activity
(Percent; year-over-year)



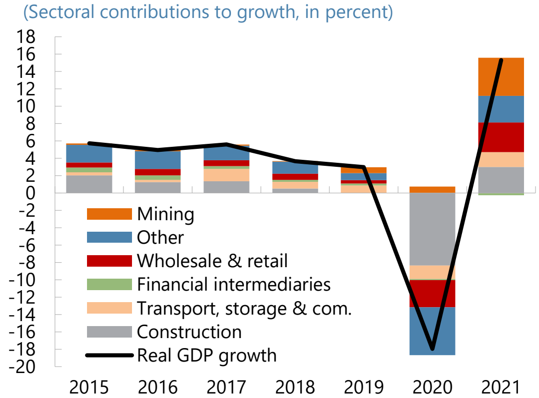
...amid rebounding activity across sectors albeit less pronounced in construction.

High-Frequency Indicators
(Index 2015Q1=100)



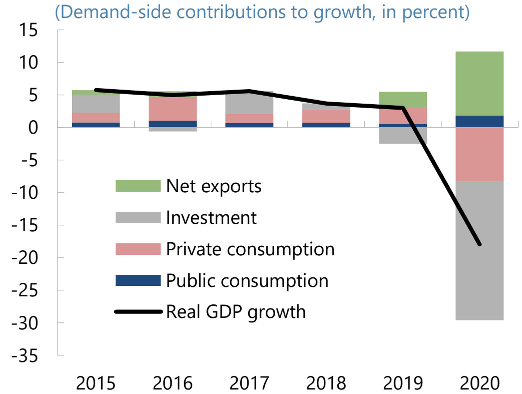
All sectors (but mining) experienced a contraction in 2020, with construction contributing the most.

Real GDP Growth
(Sectoral contributions to growth, in percent)



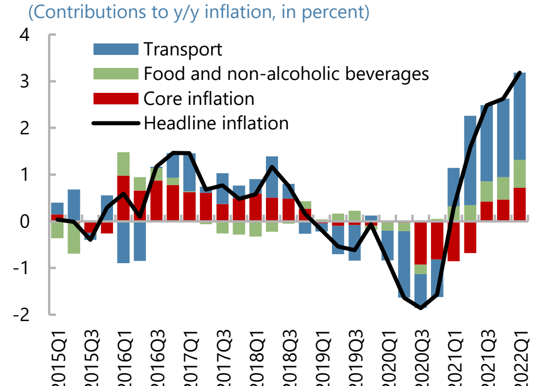
Before the pandemic, investment was already weak, with consumption and exports propelling growth.

Real GDP Growth
(Demand-side contributions to growth, in percent)



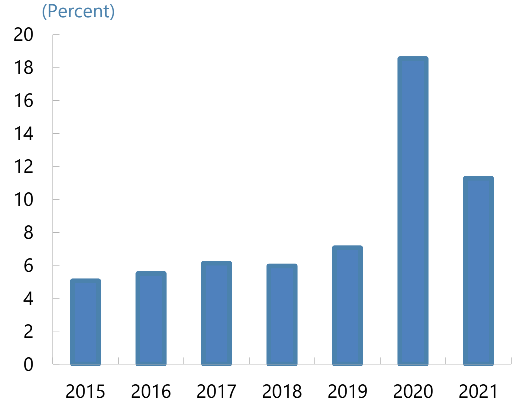
Prices were soft in 2020, reflecting weak demand, but inflation picked up in 2021-22 amid supply shocks.

Consumer Price Inflation
(Contributions to y/y inflation, in percent)



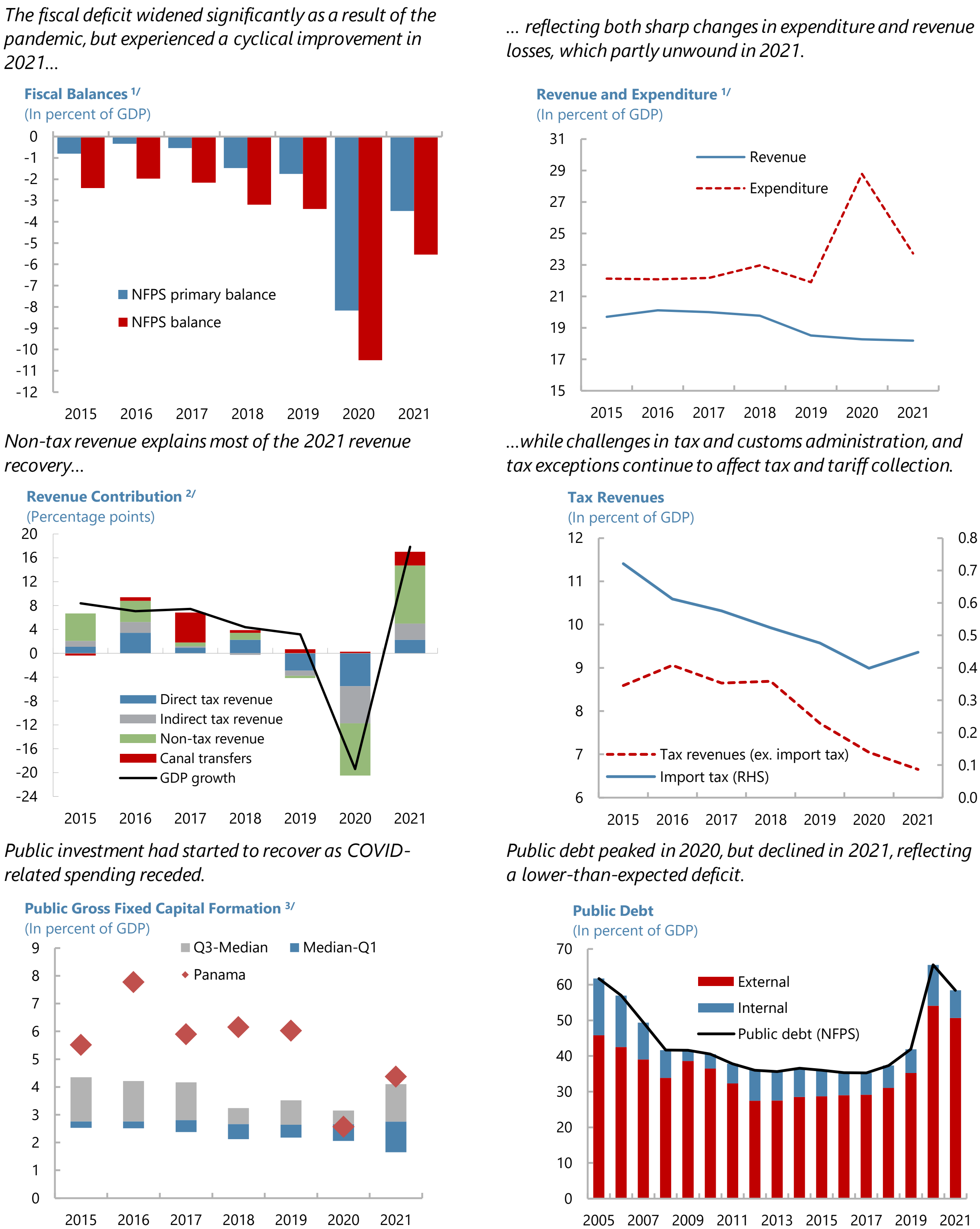
Employment growth collapsed during the pandemic, with the services sector affected the most, with a partial recovery in 2021

Unemployment Rate 1/
(Percent)



Source: INEC and IMF staff calculations.
1/ 2021 data is from the October 2021 labor market survey.

Figure 2. Panama: Fiscal Developments

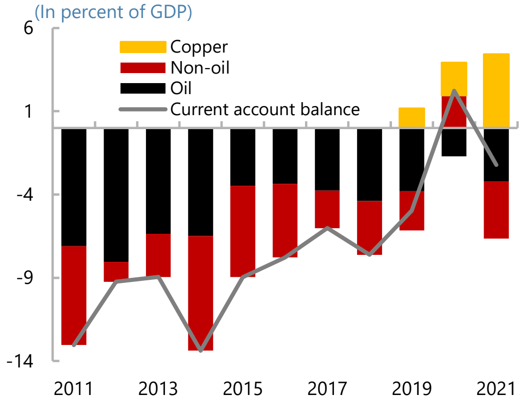


Sources: National Authorities, World Economic Outlook and IMF staff calculations.
1/ Non-Financial Public Sector.
2/ Data refer to the Central Government.
3/ Countries in the chart are CAPDR (Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica, Panama and Dominican Republic) and Brazil, Chile, Colombia, Mexico, and Peru.

Figure 3. Panama: External Sector Developments

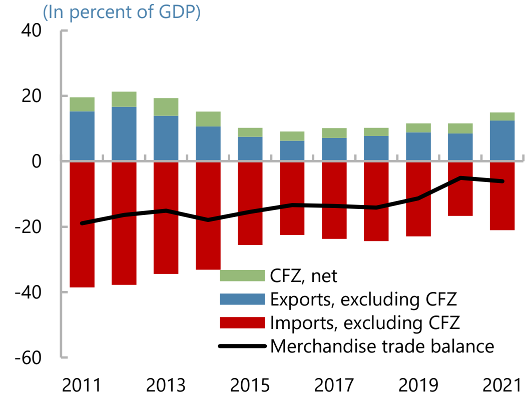
The CA returned to deficit after a temporary improvement on the back of higher copper exports and imports compression …

Current Account Oil and Non-oil
(In percent of GDP)



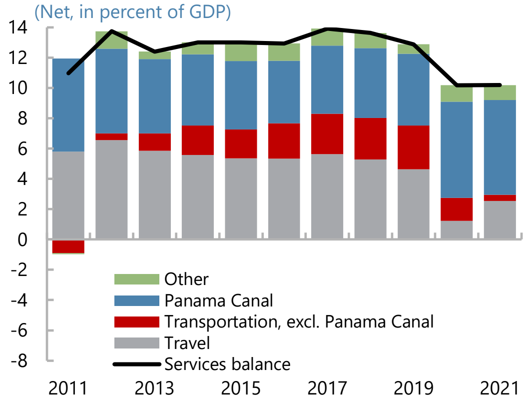
…which narrowed the merchandise trade deficit.

Merchandise Trade Balance
(In percent of GDP)



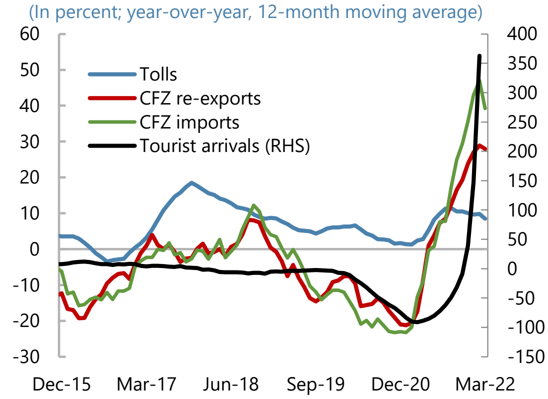
Weak tourism and air travel reduced service exports, …

Trade in Services
(Net, in percent of GDP)



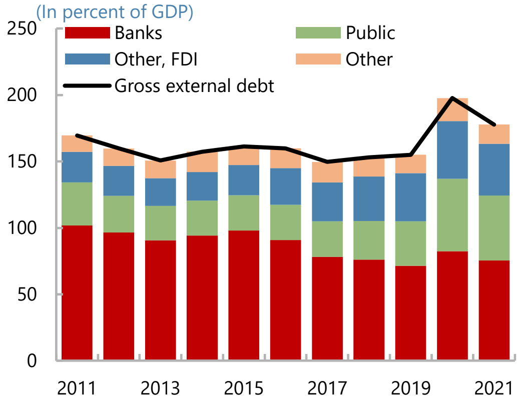
while the Canal revenue remained resilient and the activities in CFZ recovered.

High-Frequency Trade Data
(In percent; year-over-year, 12-month moving average)



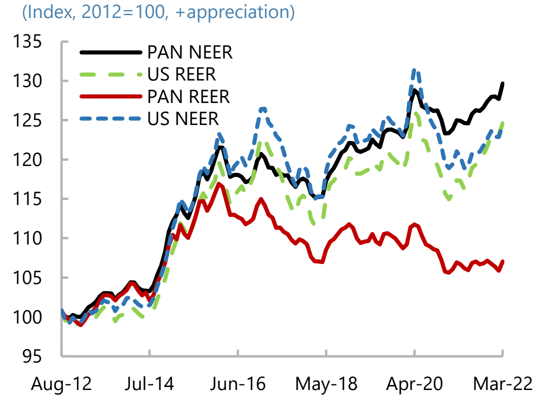
External debt ticked up with high public debt issuance and a GDP denominator effect.

External Debt
(In percent of GDP)



The REER continues to depreciate as inflation in Panama is relatively lower than peers.

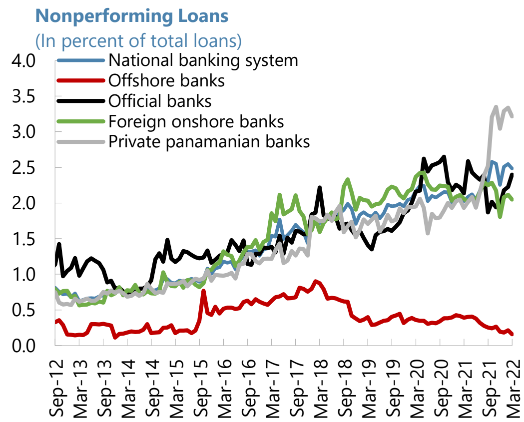
Nominal and Real Effective Exchange Rates [1/]
(Index, 2012=100, +appreciation)



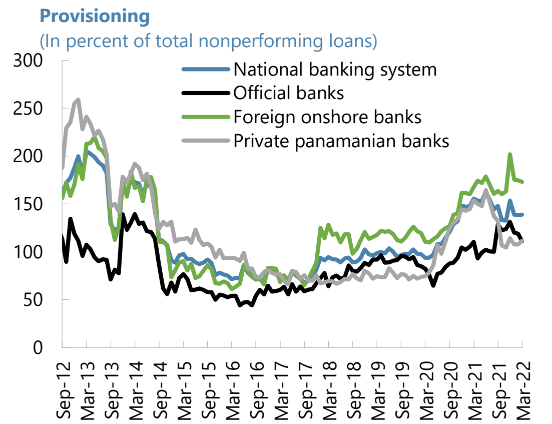
Source: INEC and IMF staff calculations.
1/ Panama's NEER and REER exclude Venezuela.

Figure 4. Panama: Banking Sector Soundness

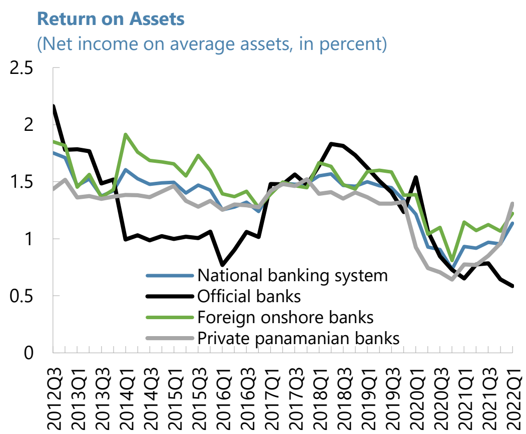
NPLs rose following the onset of the COVID-19 pandemic…



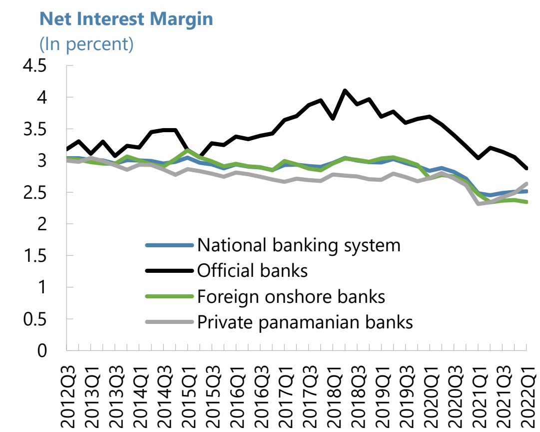
… but, loan-loss provisioning increased with the adoption of stricter provisioning requirements.



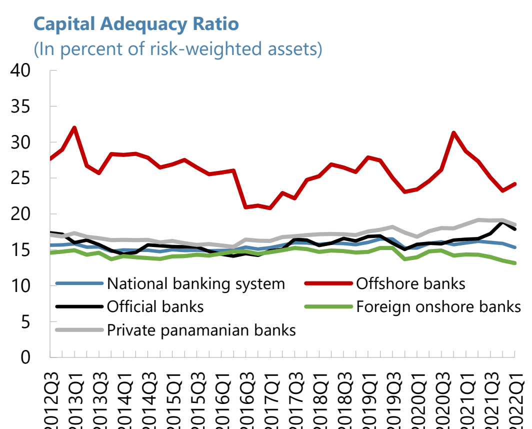
Profitability declined, but appears to be recovering …



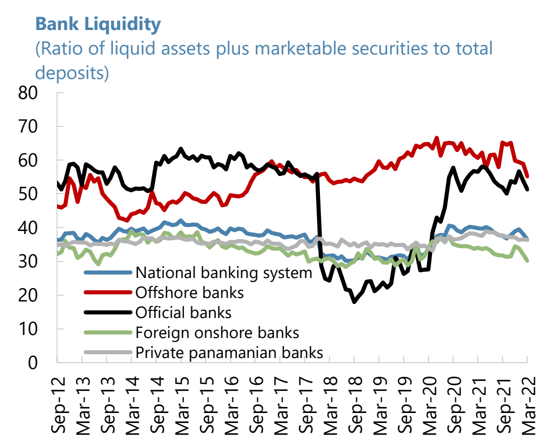
… as net interest margins recover slightly.



Banks' capital adequacy remains above regulatory minimum…



… while liquidity levels continue to be high.



Source: SBP and IMF staff calculations.

Table 1. Panama: Selected Economic and Social Indicators, 2017–27

Population (millions, 2021)	4.3	Poverty line (percent, 2019)	21.5
Population growth rate (percent, 2021)	1.4	Adult literacy rate (percent, 2019)	95.7
Life expectancy at birth (years, 2019)	78.5	GDP per capita (US$, 2021)	14,664
Total unemployment rate (October, 2021)	11.3	IMF Quota (SDR, million)	376.8

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					(Percent change)						
Production and Prices											
Real GDP (2007 prices)	**5.6**	**3.7**	**3.0**	**-17.9**	**15.3**	**7.5**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Consumer price index (average)	0.9	0.8	-0.4	-1.6	1.6	3.2	3.4	2.5	2.0	2.0	2.0
Consumer price index (end-of-year)	0.5	0.2	-0.1	-1.6	2.6	4.0	3.0	2.0	2.0	2.0	2.0
Output gap (% of potential)	2.5	4.3	5.8	-16.0	-6.3	-2.7	-1.6	-0.5	0.0	0.0	0.0
Demand Components (at constant prices)											
Public consumption	**6.4**	**6.5**	**4.9**	**16.2**	**3.7**	**-4.4**	**-2.3**	**2.5**	**2.4**	**3.6**	**3.6**
Private consumption	3.1	2.3	4.9	-15.5	3.9	14.3	4.3	4.5	4.7	4.8	5.0
Public investment 1/	-20.7	6.9	1.0	-62.4	96.5	36.1	5.4	1.2	0.9	6.7	6.7
Private investment	14.9	-0.4	-0.9	-45.4	51.9	10.1	6.5	5.9	6.1	4.8	4.6
Exports	5.0	5.3	1.2	-20.6	22.3	7.0	6.3	7.7	7.5	6.3	6.2
Imports	4.3	4.5	-2.5	-34.0	35.4	2.5	1.9	9.5	8.2	6.5	5.1
Financial Sector											
Private sector credit	**6.5**	**4.5**	**2.4**	**-2.6**	**1.5**	**4.3**	**6.4**	**6.8**	**7.1**	**7.1**	**7.1**
Broad money	5.2	2.8	2.3	9.5	4.1	11.0	8.6	7.6	7.1	7.1	7.1
Average deposit rate	1.6	1.8	2.1	1.9	1.6	2.8	5.3	5.0	3.9	3.9	3.9
Average lending rate	7.9	7.7	7.9	7.8	7.7	7.7	10.2	9.9	8.7	8.7	8.7
					(In percent of GDP)						
Saving-Investment Balance											
Gross domestic investment	**41.7**	**41.5**	**38.3**	**24.1**	**32.5**	**34.3**	**34.7**	**34.8**	**34.8**	**34.8**	**34.8**
Public sector	5.9	6.2	6.0	2.6	4.4	5.5	5.6	5.4	5.1	5.2	5.3
Private sector	35.8	35.3	32.3	21.5	28.1	28.8	29.2	29.4	29.7	29.6	29.5
Gross national saving	35.7	33.9	33.3	26.3	30.3	30.8	31.8	32.0	32.0	32.2	32.3
Public sector	4.2	4.2	2.6	-4.2	-1.8	0.5	2.2	2.7	3.4	3.9	4.1
Private sector	31.5	29.7	30.8	30.5	32.1	30.3	29.6	29.3	28.6	28.3	28.2
Public Finances 1/											
Revenue and grants	**22.0**	**22.0**	**20.8**	**21.5**	**20.5**	**23.0**	**23.2**	**23.4**	**23.7**	**23.9**	**24.1**
Expenditure	24.2	24.9	23.9	30.8	25.9	26.8	25.8	25.3	24.8	24.8	25.0
Current, including interest	17.0	17.2	17.7	25.2	21.6	21.2	20.3	19.9	19.7	19.6	19.6
Capital	6.9	6.6	6.2	5.7	4.4	5.5	5.6	5.4	5.1	5.2	5.4
Overall balance, including ACP	-2.2	-2.9	-3.1	-9.4	-5.4	-3.8	-2.7	-1.8	-1.1	-0.9	-0.9
Overall balance, excluding ACP	-2.2	-3.2	-3.4	-10.5	-5.5	-4.0	-3.0	-2.0	-1.5	-1.5	-1.5
Total Public Debt											
Debt of Non-Financial Public Sector 2/	**35.3**	**37.3**	**41.9**	**65.6**	**58.4**	**56.0**	**54.8**	**53.4**	**52.1**	**50.8**	**49.5**
External	29.1	31.1	35.2	54.1	50.6	49.8	49.3	48.5	47.5	46.9	45.9
Domestic	6.1	6.3	6.7	11.5	7.8	6.2	5.5	5.0	4.6	3.9	3.7
Debt of ACP	4.4	4.2	3.8	4.2	3.2	2.6	2.1	1.7	1.3	1.0	0.7
Other 3/	3.4	4.2	4.1	5.1	4.3	3.9	3.6	3.3	3.1	2.9	2.7
External Sector											
Current account	**-6.0**	**-7.6**	**-5.0**	**2.2**	**-2.2**	**-3.5**	**-3.0**	**-2.8**	**-2.8**	**-2.6**	**-2.5**
Net exports from Colon Free Zone	3.0	2.5	2.7	3.1	2.5	2.5	2.5	2.5	2.7	2.7	2.7
Net oil imports	3.8	4.4	3.8	1.7	3.2	4.8	4.1	3.6	3.2	3.0	2.8
Net foreign direct investment inflows	7.1	7.5	5.6	1.2	2.6	5.4	7.1	7.1	7.1	7.1	7.1
External Debt	149.6	153.0	155.0	197.6	177.4	166.0	163.7	162.1	161.8	162.1	161.2
Memorandum Items:											
GDP (in millions of US$)	62,203	64,929	66,984	53,977	63,605	70,579	76,620	82,440	88,294	94,562	101,276

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. These estimates are preliminary.

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, 2017–27 [1]

(In percent of GDP)

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Non-Financial Public Sector					
Revenues	**20.0**	**19.8**	**18.5**	**18.3**	**18.2**	**19.7**	**20.0**	**20.3**	**20.6**	**20.8**	**21.0**
Current revenue	20.0	19.8	18.5	18.3	18.2	19.2	19.9	20.3	20.6	20.8	21.0
Tax revenue	9.2	9.2	8.2	7.4	7.1	7.8	8.4	8.7	9.0	9.3	9.5
Nontax revenue	4.5	4.4	4.3	4.8	4.9	5.6	5.6	5.5	5.5	5.5	5.4
o/w: Panama Canal fees and dividends	2.6	2.6	2.7	3.4	3.2	3.5	3.5	3.4	3.4	3.4	3.4
Social security agency	5.7	5.6	5.5	5.7	5.4	5.4	5.5	5.5	5.5	5.5	5.5
Public enterprises' operating balance	0.0	0.0	0.0	-0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other [2/]	0.5	0.5	0.5	0.6	0.8	0.2	0.4	0.5	0.5	0.5	0.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.6	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	**22.2**	**23.0**	**21.9**	**28.8**	**23.7**	**23.7**	**22.9**	**22.3**	**22.0**	**22.3**	**22.5**
o/w COVID-19 related expenditure				3.0	2.5	0.9	0.0	0.0	0.0	0.0	0.0
Current primary expenditure	13.6	13.7	14.2	20.7	17.5	16.4	15.6	15.2	15.0	15.0	15.0
Central government [3/]	8.0	8.1	8.3	13.2	10.9	9.8	9.0	8.8	8.6	8.6	8.6
Rest of the general government	5.6	5.6	5.9	7.5	6.6	6.7	6.6	6.4	6.4	6.4	6.4
Social security agency	5.2	5.2	5.4	6.9	6.1	6.2	6.1	6.0	6.0	6.0	6.0
Decentralized agencies	0.4	0.4	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Interest	1.7	1.8	1.9	2.6	2.4	2.5	2.4	2.4	2.4	2.3	2.3
Capital	6.5	6.3	5.8	5.4	3.8	4.8	5.0	4.7	4.6	4.9	5.1
Accrued spending [4/]	0.3	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance [5/]	**-2.2**	**-3.2**	**-3.4**	**-10.5**	**-5.5**	**-4.0**	**-3.0**	**-2.0**	**-1.5**	**-1.5**	**-1.5**
Net Financing [6/]	**2.8**	**4.5**	**4.2**	**7.2**	**4.2**	**4.0**	**3.0**	**2.0**	**1.5**	**1.5**	**1.5**
External	2.1	3.1	5.1	10.3	4.8	4.1	3.4	2.7	2.3	2.5	2.1
Domestic	0.8	1.4	-0.9	-3.0	-0.6	-0.1	-0.4	-0.6	-0.8	-1.0	-0.6
						Panama Canal Authority (ACP)					
Revenue	**4.6**	**4.8**	**5.0**	**6.6**	**5.6**	**6.8**	**6.7**	**6.6**	**6.6**	**6.6**	**6.6**
Expenditure	**4.7**	**4.6**	**4.7**	**5.4**	**5.5**	**6.6**	**6.4**	**6.4**	**6.2**	**6.0**	**6.0**
Current primary expenditure	1.5	1.6	1.5	1.7	1.6	2.3	2.3	2.2	2.2	2.3	2.3
Transfers to the government	2.6	2.6	2.7	3.4	3.2	3.5	3.5	3.4	3.4	3.4	3.4
Interest payments	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Capital expenditure	0.4	0.3	0.3	0.2	0.6	0.7	0.6	0.7	0.5	0.3	0.3
Overall Balance	**-0.1**	**0.2**	**0.3**	**1.1**	**0.1**	**0.2**	**0.3**	**0.2**	**0.4**	**0.6**	**0.6**
						Consolidated Non-Financial Public Sector					
Overall Balance (incl. ACP)	**-2.2**	**-2.9**	**-3.1**	**-9.4**	**-5.4**	**-3.8**	**-2.7**	**-1.8**	**-1.1**	**-0.9**	**-0.9**
Memorandum Items:											
Primary balance (excl. ACP)	-0.5	-1.5	-1.8	-8.2	-3.5	-1.9	-0.9	0.1	0.7	0.6	0.6
Structural primary balance (excl. ACP) [7/]	-1.0	-2.3	-2.8	-4.8	-2.3	-1.3	-0.6	0.2	0.7	0.6	0.6
Primary balance (incl. ACP)	-0.5	-1.1	-1.3	-6.9	-3.3	-1.6	-0.5	0.3	1.1	1.2	1.2

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. Also includes in 2021 a debt issue premium by US$241 million.

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 2014-19. These estimates are preliminary.

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, 2017–27
(In percent of GDP)

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenues and Grants	**14.0**	**13.9**	**12.7**	**12.5**	**12.2**	**14.1**	**14.2**	**14.4**	**14.7**	**14.9**	**15.1**
Current revenue	13.9	13.9	12.7	12.4	12.2	13.6	14.2	14.4	14.7	14.9	15.1
Taxes	9.2	9.2	8.2	7.4	7.1	7.8	8.4	8.7	9.0	9.3	9.5
Direct taxes	4.9	5.1	4.4	4.2	3.9	4.2	4.6	4.8	4.9	5.0	5.1
Income tax	4.4	4.6	4.0	3.8	3.5	3.8	4.1	4.3	4.5	4.6	4.7
Tax on wealth	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Indirect taxes	4.3	4.1	3.8	3.2	3.2	3.5	3.8	4.0	4.1	4.2	4.3
Import tax	0.6	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
ITBMS	2.5	2.3	2.1	1.8	1.7	1.9	2.2	2.4	2.5	2.6	2.7
Petroleum products	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other tax on domestic transactions	0.8	0.8	0.8	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Nontax revenue	4.7	4.6	4.5	5.0	5.1	5.9	5.8	5.7	5.7	5.7	5.7
Dividends	2.3	2.4	2.2	2.8	2.8	3.0	3.0	2.9	2.9	2.9	2.9
Of which : Panama Canal Authority	1.9	1.8	1.8	2.4	2.3	2.6	2.6	2.5	2.5	2.5	2.5
Panama Canal Authority: fees per ton [1/]	0.7	0.8	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Transfers from decentralized agencies	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other [2/]	1.2	1.0	1.0	0.9	1.1	1.6	1.6	1.5	1.5	1.5	1.5
Capital revenue	0.1	0.0	0.0	0.0	0.0	0.4	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	**17.5**	**17.5**	**17.3**	**22.7**	**18.5**	**17.7**	**17.2**	**16.6**	**16.3**	**16.5**	**16.6**
o/w COVID-19 related expenditure				3.0	2.5	0.9	0.0	0.0	0.0	0.0	0.0
Current	10.9	11.0	11.5	17.1	15.0	13.3	12.4	12.1	11.8	11.6	11.6
Wages and salaries	4.6	4.7	4.8	6.5	5.9	5.6	5.6	5.4	5.3	5.2	5.2
Goods and services	1.4	1.2	1.3	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.3
Current expenditure of CSS	0.6	0.6	0.7	0.6	1.0	0.8	0.8	0.8	0.7	0.7	0.6
Transfers to public and private entities	2.7	2.7	2.8	5.8	4.2	3.0	2.3	2.2	2.1	2.1	2.1
Interest	1.7	1.8	1.9	2.6	2.4	2.5	2.4	2.4	2.4	2.3	2.3
Domestic	0.4	0.3	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3
External	1.4	1.4	1.5	2.1	2.0	2.1	2.1	2.1	2.1	2.0	2.0
Capital	6.1	5.8	5.8	5.6	3.6	4.4	4.8	4.5	4.5	4.8	5.1
Accrued spending [3/]	0.4	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings [4/]	3.0	2.9	1.2	-4.7	-2.7	0.3	1.8	2.3	2.9	3.3	3.5
Overall Balance [5/]	**-3.6**	**-3.7**	**-4.6**	**-10.3**	**-6.3**	**-3.7**	**-3.1**	**-2.2**	**-1.6**	**-1.6**	**-1.5**
Financing (net) [6/]	4.6	4.3	3.0	9.6	5.0	3.7	3.1	2.2	1.6	1.6	1.5
External	2.4	3.3	5.4	10.3	4.8	4.1	3.4	2.7	2.3	2.5	2.1
Of which : Multilateral lenders	1.5	1.4	1.2	4.6	2.0	1.3	1.0	1.0	0.9	0.8	0.8
Of which : Private creditors	2.4	2.7	4.9	8.8	5.0	3.5	3.5	3.7	3.7	3.5	3.1
Of which : Other lenders	-1.5	-0.7	-0.7	-3.1	-2.2	-0.7	-1.1	-2.1	-2.3	-1.8	-1.7
Domestic	2.2	0.9	-2.4	-0.7	0.2	-0.5	-0.3	-0.4	-0.6	-0.9	-0.6
Of which: Net credit from banks	1.1	0.4	-2.2	-3.3	2.2	0.4	0.1	0.1	0.0	-0.3	2.5
Of which: Net credit from non-banks	0.8	-0.3	1.6	-0.1	-2.2	-0.8	-0.2	-0.2	-0.1	0.0	-2.3
Of which: Other lenders	0.3	0.8	-1.8	2.7	0.2	0.0	-0.3	-0.4	-0.6	-0.7	-0.7
Memorandum Items:											
Primary balance	-1.8	-1.9	-2.7	-7.6	-3.9	-1.2	-0.7	0.2	0.8	0.8	0.8
GDP (in millions of US$)	62,203	64,929	66,984	53,977	63,605	70,579	76,620	82,440	88,294	94,562	101,276

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

1/ Includes public service fees.

2/ Includes in 2021 a debt premium by US$241 million as per GFSM 1986, the reporting system followed by the authorities.

3/ Staff adjustment to account for the accrual of previously unrecorded expenditure for 2014-19. These estimates are preliminary.

4/ Current revenues and grants less current expenditure.

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.

Table 4. Panama: Public Debt, 2017–27
(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Projections					
Central Government											
Gross Debt 1/	39.6	42.3	47.1	72.2	64.1	61.1	59.5	57.8	56.2	54.6	53.1
of which: held by social security (CSS)	3.7	4.8	5.4	6.7	5.7	5.1	4.7	4.4	4.1	3.8	3.6
Domestic	9.6	10.2	10.6	16.5	12.0	10.0	9.0	8.2	7.6	6.8	6.3
of which: unrecorded arrears (prel.)	1.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: floating debt (prel.)	0.6	0.6	0.4	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	30.0	32.1	36.6	55.8	52.1	51.1	50.5	49.6	48.5	47.8	46.8
Financial Assets	4.3	4.1	6.3	12.3	8.5	7.3	6.9	6.7	6.8	7.0	7.1
Deposits 2/	1.9	1.9	3.9	8.2	4.8	3.9	3.5	3.1	2.9	2.6	2.3
Sovereign Wealth Fund 3/	2.1	2.0	2.1	2.6	2.2	2.0	2.1	2.4	2.8	3.3	3.8
Loans	0.0	0.0	0.0	1.2	1.3	1.1	1.0	1.0	0.9	0.8	0.8
SDR holdings	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Net Debt	35.3	38.2	40.9	60.0	55.6	53.8	52.6	51.1	49.4	47.6	46.0
Non-Financial Public Sector											
Gross Debt 1/	35.3	37.3	41.9	65.6	58.4	56.0	54.8	53.4	52.1	50.8	49.5
of which: unrecorded arrears (prel.)	0.5	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: floating debt (prel.)	0.5	0.5	0.6	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Assets	12.2	11.3	13.0	22.4	17.6	15.2	14.3	13.7	13.6	13.4	13.1
Central government	4.3	4.1	6.3	12.3	8.5	7.3	6.9	6.7	6.8	7.0	7.1
Decentralized institutions (incl. CSS) 2/	7.9	7.2	6.8	10.1	9.1	7.9	7.4	7.1	6.8	6.4	6.0
Net Debt	23.1	26.0	28.9	43.2	40.8	40.8	40.5	39.7	38.5	37.4	36.4
Memorandum Items:											
Net Debt as defined under SFRL 4/	37.5	40.4	45.1	69.7	61.9	59.1	57.4	55.4	53.3	51.3	49.3

Source: Ministry of Finance and IMF staff calculations.

1/ Includes staff adjustment for accumulated obligations related to unrecorded expenditure in 2014-2019. These estimates are preliminary.

2/ Deposits at the National Bank (BNP).

3/ For 2020, it includes a withdrawal of US$ 0.1 billion for deficit financing.

4/ Central Government gross debt minus assets of the Sovereign Wealth Fund (FAP).

Table 5. Panama: Summary Accounts of the Banking System, 2017–27 [1]
(In millions of U.S. dollars, unless otherwise stated)

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(in millions of balboa at end of period)										
Net Foreign Assets	**1,752**	**542**	**2,547**	**10,729**	**10,854**	**11,748**	**12,567**	**13,369**	**14,186**	**15,049**	**15,964**
Short-term foreign assets, net	1,752	542	2,547	10,729	10,854	11,748	12,567	13,369	14,186	15,049	15,964
National Bank of Panama	2,957	2,218	3,646	8,485	7,580	8,414	9,136	9,832	10,532	11,281	12,084
Rest of banking system	-1,204	-1,677	-1,099	2,244	3,274	3,334	3,431	3,537	3,654	3,768	3,881
Long-term foreign liabilities	0	0	0	0	0	10,328	11,063	11,850	12,693	13,596	13,596
Net Domestic Assets	**38,337**	**40,747**	**39,035**	**37,141**	**40,272**	**42,147**	**45,941**	**49,583**	**53,236**	**57,159**	**61,371**
Public sector (net credit)	-7,425	-6,929	-9,431	-9,643	-7,894	-7,858	-7,858	-7,858	-7,858	-7,858	-7,858
Central government (net credit)	-505	-305	-1,507	-3,369	-1,989	-1,953	-1,953	-1,953	-1,953	-1,953	-1,953
Rest of the public sector (net credit)	-6,920	-6,624	-7,924	-6,273	-5,905	-5,905	-5,905	-5,905	-5,905	-5,905	-5,905
Private sector credit	51,310	53,631	54,901	53,465	54,281	56,619	60,236	64,358	68,927	73,821	79,062
Private capital and surplus	-10,390	-10,676	-11,384	-10,890	-10,855	-12,045	-13,076	-14,069	-15,068	-16,138	-17,284
Other assets (net)	4,841	4,720	4,949	4,208	4,741	5,432	6,640	7,153	7,236	7,335	7,451
Liabilities to Private Sector	**40,565**	**41,690**	**42,631**	**46,667**	**48,569**	**53,895**	**58,508**	**62,952**	**67,422**	**72,208**	**77,335**
Total deposits	40,410	41,475	42,239	45,703	47,811	53,053	57,594	61,969	66,369	71,081	76,128
Demand deposits	8,337	8,710	7,892	9,100	9,526	10,571	11,476	12,347	13,224	14,163	15,169
Time deposits	21,796	22,368	23,849	24,264	24,416	27,093	29,412	31,646	33,893	36,300	38,877
Savings deposits	10,278	10,398	10,498	12,339	13,868	15,389	16,706	17,975	19,251	20,618	22,082
Bonds	155	215	392	964	759	842	914	983	1,053	1,128	1,208
Deposit as % of private sector credit	78.8	77.3	76.9	85.5	88.1	93.7	95.6	96.3	96.3	96.3	96.3
	(12-month change in relation to liabilities to the private sector at the beginning of the period)										
Net foreign assets	-5.8	-3.0	4.8	19.2	0.3	1.8	1.5	1.4	1.3	1.3	1.3
Net domestic assets	10.6	5.9	-4.1	-4.4	6.7	3.9	7.0	6.2	5.8	5.8	5.8
Public sector credit (net)	1.7	1.2	-6.0	-0.5	3.7	0.1	0.0	0.0	0.0	0.0	0.0
Private sector credit	8.2	5.7	3.0	-3.4	1.7	4.8	6.7	7.0	7.3	7.3	7.3
Private capital and surplus	2.1	0.7	1.7	-1.2	-0.1	2.5	1.9	1.7	1.6	1.6	1.6
Other assets (net)	2.7	-0.3	0.5	-1.7	1.1	1.4	2.2	0.9	0.1	0.1	0.2
Liabilities to the private sector	5.2	2.8	2.3	9.5	4.1	11.0	8.6	7.6	7.1	7.1	7.1
	(12-month percent change)										
Memorandum Items:											
M2 [1/]	5.2	2.8	2.3	9.5	4.1	11.0	8.6	7.6	7.1	7.1	7.1
Net domestic assets	11.9	6.3	-4.2	-4.9	8.4	4.7	9.0	7.9	7.4	7.4	7.4
Public sector credit (gross)	-10.1	21.3	2.6	39.8	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Private sector credit	6.5	4.5	2.4	-2.6	1.5	4.3	6.4	6.8	7.1	7.1	7.1
Share of demand deposits in total deposits (in percent)	20.6	21.0	18.7	19.9	19.9	19.9	19.9	19.9	19.9	19.9	19.9
	(In percent of GDP)										
Total deposits	65.0	63.9	63.1	84.7	75.2	75.2	75.2	75.2	75.2	75.2	75.2
Credit to private sector	82.5	82.6	82.0	99.1	85.3	80.2	78.6	78.1	78.1	78.1	78.1

Sources: Superintendency of Banks; National Bank of Panama; Savings Bank; and IMF staff calculations.
1/ M2 comprises bank deposits; estimates of U.S. currency in circulation are not available.

Table 6. Panama: Financial Soundness Indicators, 2015–22Q1
(In percent, end-of-period)

	2015	2016	2017	2018	2019	2020	2021	2022Q1
Core FSIs								
Regulatory capital to risk-weighted assets	14.9	15.3	16.0	15.7	15.2	15.7	15.8	15.3
Tier 1 capital to risk-weighted assets	14.3	16.3	17.0	16.9	16.4	17.1	16.8	16.2
Nonperforming loans net of provisions to capital	8.4	8.8	10.5	8.6	-0.3	-5.2	-8.7	-7.7
Capital to assets (leverage ratio)	10.2	11.4	12.5	12.5	12.7	11.8	12.2	11.9
Nonperforming loans to total gross loans	2.2	2.5	3.1	3.3	2.0	2.0	2.3	2.5
Provisions to nonperforming loans	35.9	41.2	38.3	53.7	102.4	148.0	173.7	157.1
Return on assets	1.5	1.3	1.6	1.6	1.5	0.7	1.0	1.2
Return on equity	14.0	11.8	13.4	13.1	11.5	6.4	9.1	10.9
Interest margin to gross income	62.9	62.9	60.4	61.5	61.3	62.0	56.9	55.4
Noninterest expenses to gross income	50.1	50.0	46.9	46.4	47.7	48.6	48.7	49.4
Liquid assets to total assets	12.0	11.9	13.2	10.3	10.0	10.7	11.4	14.7
Liquid assets to short-term liabilities	29.8	29.9	35.1	29.6	29.0	28.5	32.4	42.2
Additional FSIs								
Gross asset position in financial derivatives to capital	0.1	0.1	0.2	0.1	0.2	0.6	0.2	0.4
Gross liability position in financial derivatives to capital	0.8	1.3	0.9	0.7	0.4	0.4	0.4	0.5
Trading income to total income	0.9	1.6	0.7	0.3	1.9	2.8	2.6	0.1
Personnel expenses to noninterest expenses	46.7	46.2	46.8	46.4	45.8	46.2	44.5	42.6
Customer deposits to total (noninterbank) loans	85.3	83.1	82.5	80.8	81.5	89.4	111.5	110.7

Source: IMF Financial Soundness Indicators.

Table 7. Panama: Summary Balance of Payments, 2017–27
(In percent of GDP, unless otherwise stated)

						Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
				(In percent of GDP)							
Current Account	**-6.0**	**-7.6**	**-5.0**	**2.2**	**-2.2**	**-3.5**	**-3.0**	**-2.8**	**-2.8**	**-2.6**	**-2.5**
Merchandise trade excluding Colón Free Zone, net	-16.6	-16.7	-14.1	-8.1	-8.6	-11.1	-10.2	-9.9	-9.6	-9.5	-9.3
Exports, f.o.b.	7.2	7.7	8.9	8.5	12.5	13.7	13.5	13.0	12.7	12.5	12.4
Of which: Copper	0.0	0.0	1.2	2.0	4.4	4.4	4.6	4.5	4.3	4.0	3.8
Of which: Gold	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.2	0.2	0.2
Imports, f.o.b.	23.7	24.4	22.9	16.6	21.0	24.8	23.7	23.0	22.4	22.0	21.8
Of which: Oil	6.8	8.1	7.5	3.3	6.1	8.9	7.6	6.5	5.8	5.3	5.0
Merchandise trade from Colón Free Zone, net	3.0	2.5	2.7	3.1	2.5	2.5	2.5	2.5	2.7	2.7	2.7
Re-exports, f.o.b.	15.1	15.0	13.0	13.0	13.5	13.3	13.3	13.7	14.4	14.8	14.4
Imports, f.o.b.	12.1	12.5	10.3	9.9	11.0	10.8	10.8	11.2	11.8	12.1	11.7
Services, net	13.9	13.6	12.9	10.2	10.2	9.8	9.7	9.8	9.7	9.8	9.8
Travel, net	5.6	5.3	4.6	1.2	2.5	2.8	3.1	3.2	3.2	3.2	3.2
Transportation, net	7.2	7.4	7.6	7.9	6.7	6.1	5.7	5.9	5.9	5.8	5.9
Of which: Canal	4.5	4.6	4.7	6.4	6.3	5.8	5.3	5.1	5.0	4.9	4.8
Other services, net	1.1	1.0	0.6	1.1	1.0	0.9	0.8	0.7	0.6	0.7	0.7
Income, net	-6.3	-7.1	-6.5	-2.9	-6.3	-4.7	-4.9	-5.2	-5.6	-5.6	-5.7
Primary, net	-6.1	-7.0	-6.5	-3.2	-6.8	-5.0	-5.2	-5.4	-5.8	-5.8	-5.8
Of which: Direct investment	-4.5	-5.1	-4.7	-0.6	-4.4	-4.1	-4.9	-4.8	-4.5	-4.3	-4.3
Secondary, net	-0.2	-0.1	0.0	0.2	0.5	0.4	0.3	0.2	0.2	0.2	0.1
Of which: Workers' remittances	-0.6	-0.5	-0.5	-0.2	-0.1	-0.2	-0.3	-0.4	-0.4	-0.4	-0.5
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	**-9.9**	**-9.4**	**-7.0**	**2.9**	**-4.0**	**-3.5**	**-3.0**	**-2.8**	**-2.8**	**-2.6**	**-2.5**
Foreign direct investment, net	-7.1	-7.5	-5.6	-1.2	-2.6	-5.4	-7.1	-7.1	-7.1	-7.1	-7.1
Of which: Reinvested earnings	-2.8	-2.8	-2.6	1.0	-3.0	-1.3	-1.4	-1.4	-1.4	-1.4	-1.4
Portfolio investment, net	-2.0	-0.6	-4.7	-3.4	6.5	-1.2	-0.4	0.0	0.4	0.2	0.1
Financial derivatives, net	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	0.7	-0.4	1.2	-2.8	-6.2	1.9	3.6	3.5	3.2	3.5	3.7
Reserve assets, net	-1.6	-1.0	1.8	10.3	-1.7	1.2	0.9	0.8	0.8	0.8	0.8
Net Errors and Omissions	**-3.9**	**-1.8**	**-2.1**	**0.7**	**-1.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:											
Exports of goods and services (annual percent change)	7.7	5.1	0.3	-29.4	34.9	13.8	8.7	8.5	8.2	7.3	6.2
Imports of goods and services (annual percent change)	5.8	7.2	-4.5	-36.9	41.4	22.7	6.6	7.3	7.3	6.8	5.7
Oil trade balance (percent of GDP)	-3.8	-4.4	-3.8	-1.7	-3.2	-4.8	-4.1	-3.6	-3.2	-3.0	-2.8

Sources: INEC; and IMF staff calculations.

Table 8. Panama: External Vulnerability Indicators, 2017–23
(In percent, unless otherwise specified)

	2017	2018	2019	2020	2021	Projections 2022	2023
Financial Indicators							
Broad money (12-month percent change)	5.2	2.8	2.3	9.5	4.1	11.0	8.6
Private sector credit (12-month percent change)	6.5	4.5	2.4	-2.6	1.5	4.3	6.4
Deposit rate (6-month; in percent) 1/	1.8	1.8	2.2	2.0	1.8	3.0	5.5
External Indicators							
Merchandise exports (12-month percent change)	6.8	6.8	-0.7	-20.6	41.8	15.3	7.9
Merchandise imports (12-month percent change)	7.7	7.5	-7.1	-35.5	42.0	23.5	5.2
Current account balance (in percent of GDP)	-6.0	-7.6	-5.0	2.2	-2.2	-3.5	-3.0
Capital account balance (in percent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance (in percent of GDP)	-9.9	-9.4	-7.0	2.9	-4.0	-3.5	-3.0
Of which : direct investment	-7.1	-7.5	-5.6	-1.2	-2.6	-5.4	-7.1
Non-Financial Public Sector external debt (in percent of GDP)	29.1	31.1	35.2	54.1	50.6	49.8	49.3
In percent of exports of goods and services 2/	66.7	70.6	82.4	144.5	118.3	113.3	112.1
External interest payments							
In percent of exports of goods and services 2/	9.7	7.1	7.3	8.1	4.6	11.1	13.8
External amortization payments							
In percent of exports of goods and services 2/	172.9	146.5	147.7	205.6	145.9	138.3	125.0
REER, percent change (average) 6/	-7.6	-1.2	1.0	0.0	-1.4	…	…
Gross international reserves at end of period							
In millions of U.S. dollars 3/	3,788	3,149	4,375	9,930	8,832	9,666	10,388
In months of imports of goods and services	1.6	1.4	3.0	4.8	3.3	3.4	3.4
In percent of broad money 4/	9.3	7.6	10.3	21.3	18.2	17.9	17.8
In percent of short-term external debt 5/	9.8	8.1	11.9	27.8	22.2	25.0	26.9
Memorandum Items:							
Nominal GDP (in millions of US$)	62,203	64,929	66,984	53,977	63,605	70,579	76,620
Exports of goods and services (in millions of US$) 2/	27,151	28,548	28,622	20,196	27,237	31,003	33,689
Imports of goods and services (in millions of US$) 2/	26,960	28,903	27,599	17,414	24,627	30,212	32,209

Sources: Ministry of Economy and Finance; and IMF staff calculations.
1/ One-year average for the banking system, comprises general license banks, excluding offshore banks.
2/ Includes transactions conducted in the Colón Free Zone.
3/ Corresponds to gross foreign assets of the National Bank of Panama (a publicly-owned commercial bank).
4/ M2 consists of resident bank deposits only; estimates of U.S. currency in circulation are not available.
5/ Excludes off-shore banks' external liabilities. Short-term public external debt includes next year amortization.
6/ Negative sign indicates depreciation.

Table 9. Panama: Capacity to Repay Indicators, 2020–27 [1, 2]

	2020	2021	2022	2023	2024	2025	2026	2027
Existing and Prospective drawings (100% of Quota)	376.8	0.0	1,884.0	...	...	...	...	...
(in percent of quota)	100	0	500	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)								
Repurchases under the PLL	0.0	0.0	0.0	0.0	0.0	235.5	942.0	706.5
Repurchases under RFI	0.0	0.0	0.0	94.2	188.4	94.2	0.0	0.0
Total charges [2/]	0.0	0.0	30.7	68.1	62.7	59.2	37.4	5.8
Total debt service [3/]	0.0	0.0	30.7	162.3	251.1	388.9	979.4	712.3
(in percent of exports of G&S)	0.0	0.0	0.1	0.7	1.0	1.4	3.4	2.3
(in percent of GDP)	0.0	0.0	0.1	0.3	0.4	0.6	1.5	1.0
(in percent of GIR)	0.0	0.0	0.4	2.1	3.0	4.5	10.7	7.3
(in percent of total external debt)	0.0	0.0	0.0	0.2	0.3	0.4	0.9	0.7
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)								
Outstanding stock [3/]	376.8	376.8	2,260.8	2,166.6	1,978.2	1,648.5	706.5	0.0
(in percent of quota)	100.0	100.0	600.0	575.0	525.0	437.5	187.5	0.0
(in percent of exports of G&S)	2.6	2.0	10.2	8.8	7.7	6.0	2.4	0.0
(in percent of GDP)	1.0	0.8	4.5	4.0	3.4	2.7	1.1	0.0
(in percent of GIR)	5.3	5.6	30.5	27.4	23.8	18.9	7.7	0.0
(in percent of total external debt)	0.5	0.5	2.7	2.4	2.1	1.7	0.7	0.0
Memorandum Items:								
Exports of goods and services (US$ mn)	20,196	27,115	30,240	33,755	35,599	37,902	40,747	43,775
GDP (US$ mn)	53,977	63,605	68,211	74,072	79,698	85,356	91,417	97,907
US$/SDR exchange rate	1.39	1.42	1.36	1.36	1.38	1.39	1.40	1.41
Gross International Reserves (US$ mn)	9,930	9,539	10,090	10,791	11,463	12,140	12,864	13,640
Total external debt (US$ mn)	106,665	109,238	115,529	122,815	129,527	137,039	144,451	151,691
Quota	377	377	377	377	377	377	377	377
Government revenue (in percent of GDP)	18.3	18.2	18.8	19.5	20.4	20.8	21.0	21.2
Stock of Fund credit (in percent of government revenue)	5.3	4.6	24.0	20.5	16.7	12.9	5.2	0.0
Debt service to the Fund (in percent of government revenue)	0.0	0.0	0.3	1.5	2.1	3.1	7.1	4.8

Source: Fund staff estimates.

1/ Assumes full drawings and macroeconomic indicators under an adverse scenario. The ratios of GRA Fund credit and debt service are based on the WEO's projected SDR-to-US dollar exchange rates.

2/ Includes GRA basic rate of charge, surcharges, service fees, and SDR charges.

3/ Staff projections for external debt, GDP, gross international reserves, government revenue, and exports of goods and services are based on an adverse scenario.

Table 10. Panama: Schedule of Reviews and Available Credit Under the PLL Arrangement, 2021–22 [1, 2]

Availability Date	Condition	Credit Available	
		Millions of SDRs (cumulative)	Percent of Quota (cumulative)
January 19, 2021	Approval of the PLL arrangement	942	250
July 18, 2021	Completion of First Review	942	250
January 18, 2022	Completion of Second Review	1,884	500
July 18, 2022	Completion of Third Review	1,884	500
Total		**1,884**	**500**

Source: IMF staff.

1/ For PLL arrangements with a duration of one to two years approved, the remaining amount being available at the beginning of the second year of the arrangement.

2/ With the second review in mid-July 2022, there will no third review. The second review assesses compliance with all past conditionality until July 2022 and gives Panama access to the PLL resources until January 18, 2023, at which time the PLL will expire.

Annex I. General Assessment of Qualification Under the PLL

1. Panama's economic fundamentals and institutional policy frameworks remain sound. The authorities continue to implement, and have a track record of implementing, sound policies. This strengthens confidence that Panama will take the policy measures needed to reduce remaining vulnerabilities and respond appropriately to any potential external shocks. Panama's government effectiveness, as assessed by the World Bank, is similar to that of peers.

- ***Economic fundamentals are strong and imbalances are absent.*** This is evident in the strong output recovery (GDP grew by 15⅓ percent in 2021 and the strong recovery continues in 2022 with real GDP expanding 13.6 percent (y/y) in the first quarter), contained inflation (3.7 percent headline and 1.1 percent core), solid financial sector performance (the banking system remains stable, well capitalized and liquid), and fiscal discipline by adherence to the fiscal rule (NFPS deficit of 5.5 percent registered in 2021 was below SFRL limits).

- ***Policy performance remains strong***. During the Executive Board discussion of the 2021 Panama Article IV , Directors gave a generally positive assessment of the Panamanian economy, welcomed the authorities' continued strong commitment to recalibrating policy responses to safeguard macroeconomic and financial stability, addressing FATF's concerns to successfully exit the grey list, strengthening data adequacy, and preparing the economy for the post-pandemic recovery.

- ***Sound policies***. The fiscal balance improved significantly in 2021, with a NFPS deficit of 5½ percent of GDP (US$3½ billion) that outperforms the SFRL targets (NFPS deficit between 7 and 7½ percent of GDP). Further reductions in the deficit until 2025 would be supported by a combination of a cyclical recovery in tax revenues, the withdrawal of the COVID-related spending, improvements in tax administration, and a moderation of expenditure growth over the medium term. The authorities stand ready to explore additional measures if needed to achieve the planned fiscal consolidation. In this sense, large tax expenditures (estimated at close to 4 percent of GDP) provide an important margin of maneuver. The authorities also remained resolute in safeguarding financial stability through tight supervision and monitoring of banks, and no further extension was granted for the temporary moratorium on servicing bank loans which ended on June 30, 2021. While some progress had been made in addressing the action items on the FATF action plan, the FATF called Panama to take urgent action to fully address the remaining items on its action plan at the plenary meetings of October 2021 and March 2022. As a result, the authorities took resolute action to hasten progress in addressing outstanding concerns, including by applying risk-based supervision to the non-financial sector, using the practical guide for financial investigations, passing an important piece of legislation (Law 254 on October 26, 2021), approving the Sectoral Risk Assessment, and compiling beneficial ownership information for companies incorporated by some of the largest law firms.

- At the plenary meeting in June 2022, the FATF increased the number of "largely addressed" action items from 8 to 11 (out of 15; compared with 5 at the time of the first review) but repeated its concern that Panama had not fully implemented its action plan. [1]

[1] "The FATF again expresses significant concern that Panama failed to complete its action plan, which fully expired in January 2021. The FATF strongly urges Panama to swiftly complete its action plan by October 2022 or the FATF will consider calling on its members and urging all jurisdictions to apply enhanced due diligence to business relations and transactions with Panama."

Annex II. Assessment of Specific Criteria

1. Panama continues to meet the qualification criteria for a PLL arrangement. Panama continues to perform strongly in 3 out of the 5 qualification areas (external, fiscal and monetary), and does not to substantially underperform in the other 2 areas (financial and data). The financial sector remained sound, and the main reason for not performing strongly in this area is the potential risk from Panama being on the FATF grey list. On statistics, the authorities published the data template on International Reserves and Foreign Currency Liquidity as well as fiscal data including financing, as envisaged in the work program.

I. External Position and Market Access. *Panama performs strongly in the external position and market access.*

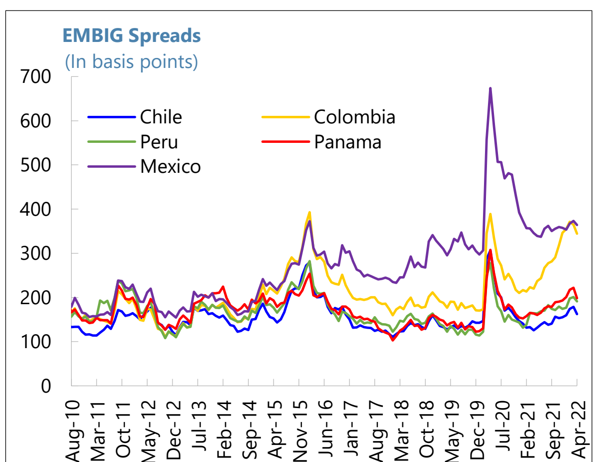
- ***Criterion 1. Sustainable external position.*** Based on the 2021 External Balance Assessment (EBA), the external position of Panama in 2020 is assessed to be moderately stronger than the level implied by fundamentals and desirable policy settings. This assessment was confirmed by a recent update using 2021 data. The current account deficit widened in 2021 and is projected to widen further in 2022 due to a pick-up in import volumes and higher oil prices but is expected to improve steadily over the medium term, with stronger exports receipts from copper, Canal traffic, tourism, and re-exports from the free zone as the world economy recovers.

EBA-lite Model Results, 2021

	CA Model [1/] (In percent of GDP)
CA-Actual	**-2.2**
Cyclical contributions (from model) (-)	0.7
COVID-19 adjustor (-) [2/]	-1.7
Additional temporary/statistical factors (-)	0.0
Natural disasters and conflicts (-)	-0.2
Adjusted CA	**-1.0**
CA Norm (from model) [3/]	**-2.7**
Adjustments to the norm (-)	0.0
Adjusted CA Norm	**-2.7**
CA Gap	**1.7**
o/w Relative policy gap	1.1
Elasticity	-0.30
REER Gap (in percent)	**-5.6**

1/ Based on the EBA-lite 3.0 methodology.
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (2 percent of GDP) and remittances (0.1 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

- ***Criterion 2. Capital account position dominated by private flows.*** Private capital flows constitute the largest share of the capital account, and FDI accounted for 55 percent of the total private capital flows during 2018–21. As the regional financial hub, deposits and other external liabilities in the banking sector accounted for about 50 percent of total external liabilities during 2018–21. The net international investment position (NIIP) is



Source: Bloomberg.

projected to improve over the medium term—due to higher net exports and continued capital inflows of which most are private. Private external debt accounted for more than 70 percent of total external debt as of end-2021.

- ***Criterion 3. Track record of steady sovereign access to capital markets at favorable terms.*** Panama has a long track record of tapping international capital markets on favorable conditions. Sovereign global bond issuances in the last years amounted to 2,160 Panama's quota, far exceeding the minimum threshold of 50 percent for the market access criterion. Panama has also placed bonds every year in the last decade, exceeding the minimum of placing sovereign bonds in 3 out of the las years. Panama achieved investment grade status over a decade ago (2010) and has enjoyed low borrowing costs for many years. Its EMBI spread stood at 235 bps as of May 25, 2022, one of the lowest in Latin America, and significantly lower than the average in emerging markets (404 bps) and the region (454 bps).

Sovereign Bond Issuances

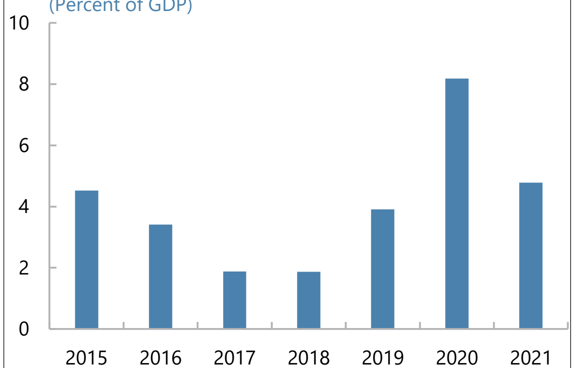
Date	Amount (US$ bn)	Yield (%)	Spread[1/] (bps)	Maturity (year)	Bond Type	Demand relative to offer (times)
Sep 2014	1.25	4.00	...	2024	Global	6
Mar 2015	1.25	3.75	...	2025	Global	...
Nov 2016	1.25	3.88	...	2028	Global	...
May 2017	1.17	4.50	150	2047	Global	4
Apr 2018	1.20	4.50	150	2050	Global	3
Oct 2018	0.55	4.95	155	2050	Global	2
Apr 2019	1.00	3.75	140	2026	Local	2
July 2019	1.25	3.16	140	2030	Global	5
July 2019	0.75	3.87	165	2060	Global	5
Nov 2019	1.00	3.60	135	2053	Global	...
Nov 2019	0.30	2.83	105	2030	Global	...
Mar 2020	2.50	4.50	307	2056	Global	3
Sep 2020	1.25	2.25	158	2032	Global	4
Sep 2020	1.00	3.28	186	2060	Global	4
Sep 2020	0.33	2.77	249	2026	Local	4
Jan 2021	1.25	2.20	112	2032	Global	2
Jan 2021	1.20	3.38	155	2060	Global	2
Jun 2021	1.25	3.36	188	2031	Global	2
Jun 2021	0.75	3.77	165	2050	Global	2
Jan 2022	1.50	4.53	245	2063	Global	2
Jan 2022	1.00	3.30	155	2033	Global	2

Source: Panamanian authorities.
1/ Computed as spread against relevant U.S. treasury yields.

- ***Criterion 4. A comfortable reserve position.*** Panama is fully dollarized. In line with the recommendations of the IMF Guidance Note (2016), the assessment of the reserve position qualification criterion is based on individual traditional metrics, including the adequacy of liquidity buffers to cover the external financial obligations of the government and banking sector:

  - ***Fiscal liquidity reserve buffer***. Central government deposits at commercial banks are above the recommended benchmark of 1 month of expenditure.[1]

Government Deposits in Panama
(Percent of GDP)



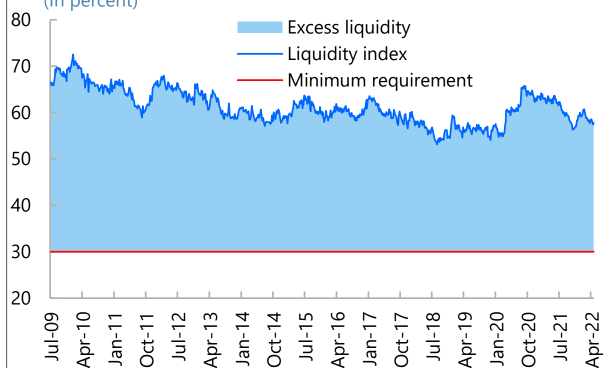
Source: IMF staff calculations.

[1] Wiegand (2013) recommends the use of one month of central government expenditure as benchmark for fiscal reserve buffer. For further details, see Wiegand, Johannes, 2013, "Euroization, Liquidity Needs, and Foreign Currency Reserves," Chapter 3, IMF Country Report 13/223, Washington, International Monetary Fund.

The average coverage over the last decade (2011–21) is 2.4 months of central government expenditure, which is broadly in line with other dollarized economies. Moreover, Panama has a Sovereign Wealth Fund of about 2.6 percent of GDP (in foreign assets abroad), which could be considered adequate to cover the financial needs of a relatively lean government with small deficits during normal times.

- ***Banking sector liquidity reserve buffer***. Liquid assets in the banking sector remain high, covering a large proportion of deposits since the introduction of the statutory liquidity requirement in 2009.[2] As of end-May 2022, this ratio stood at 58.5 percent, almost double the minimum statutory requirement of 30 percent. In addition, stringent legal requirements, strong regulatory oversight, and conservative banking practices continue to underpin high levels of banks' short-term external assets, which cover close to 100 percent of banks' short-term external liabilities.

Legal Liquidity Index
(In percent)



Source: SBP.

Reserves Adequacy Metrics

Metric	Benchmark coverage	NIR coverage										
		2017	2018	2019	2020	2021	2022 (f)	2023 (f)	2024 (f)	2025 (f)	2026 (f)	2027 (f)
Central Government liquidity coverage 1/	1 month	1.3	1.3	2.7	4.3	3.1	2.7	2.4	2.2	2.1	1.9	1.7
Banks' statutory liquidity buffers 2/	30%	60.0	59.4	57.0	63.5	63.5	57.8	57.0	56.3	55.7	55.1	54.5
Short-term debt coverage 3/		75.4	73.4	79.2	108.3	99.9	83.9	87.6	90.9	92.7	93.1	96.0

Source: National authorities and IMF staff calculations.
1/ Refers to Central Government deposits at financial institutions, expressed in months of expenditure (fiscal reserve buffer). Wiegand (2013) proposed a minimum of one month of government expenditure for dollarized countries.
2/ Defined as the ratio of liquid assets to net deposits. The minimum statutory requirement is 30 percent.
3/ Computed as banks' liquidity buffers (defined as liquid assets up to 186 days) relative to banks' short term debt.

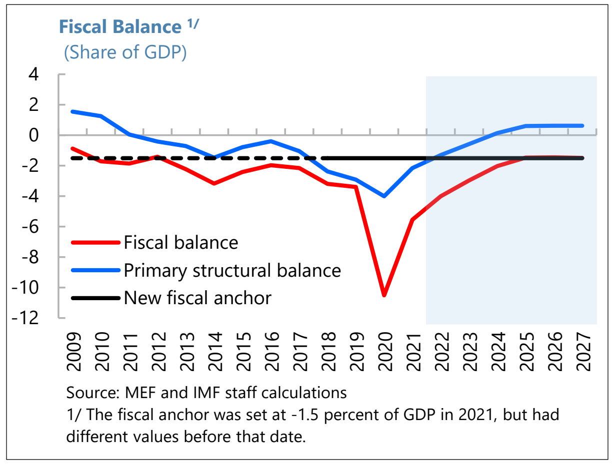
II. Fiscal Policy. *Panama performs strongly in the fiscal policy area.*

- ***Criterion 5. Sound public finances, including a sustainable public debt position***. Panama has a long tradition of fiscal discipline with legislation on a fiscal rule for over a decade and long episodes of a declining debt to GDP ratio. Debt is assessed to be sustainable with a high probability.

[2] Panama's Banking Law of 2008 stipulates that banks must hold a minimum amount of liquid assets against qualifying deposits as "statutory liquidity requirement", set by the SBP. Pursuant to the Law, the SBP defines the statutory liquidity requirement as "Legal Liquidity Index" (LLI) and set the minimum at 30 percent. "Qualifying deposits" include private deposits, bank deposits, and deposits from other financial institutions with a maturity up to 186 days. Deposits received from the parent banks are excluded from this requirement. "Liquid assets" are short-term assets with maturities below 186 days.

- *Fiscal rule*. The 2008 SFRL set up the framework to anchor fiscal management. This framework has been modified in the past and by 2019 was based on medium-term anchors for NFPS deficit and gross debt of 2 and 40 percent of GDP respectively, as well as an expenditure rule to limit real current spending growth to potential GDP growth.

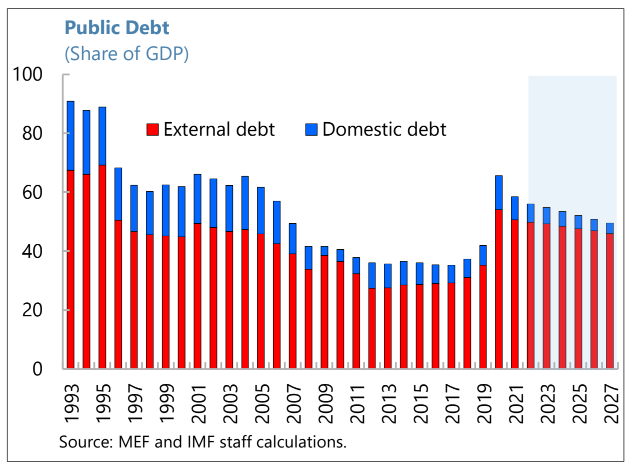
  Deviations from the medium-term anchor in the previous decade have been limited.



Source: MEF and IMF staff calculations
1/ The fiscal anchor was set at -1.5 percent of GDP in 2021, but had different values before that date.

  Amidst the COVID-19 outbreak, the National Assembly approved a relaxation of the fiscal target for 2020 to 10½ percent of GDP with a view to gradually adjusting in the following years, and then adhering to a new fiscal deficit anchor of 1½ percent of GDP in 2025.

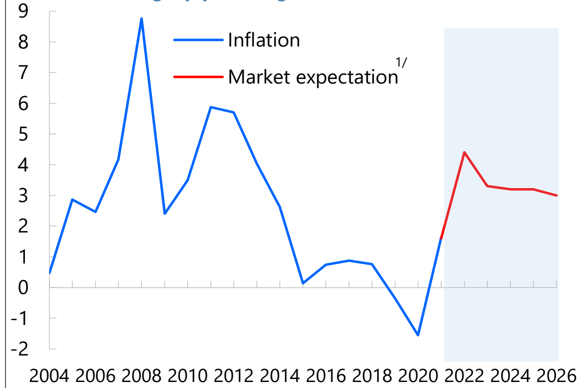
- ***Debt sustainability***. While the NFPS debt reached 58.4 percent of GDP in 2021, the fiscal rule had facilitated a decline in such debt from about 60 to 42 percent of GDP over the last two decades prior to the pandemic. In addition, there were sizable NFPS financial assets amounting to 17½ percent of GDP in bank deposits by 2021 and 2 ¼ percent of GDP in holdings by the Sovereign Wealth Fund (FAP). As a result, net debt amounted to 41.1 percent of GDP in 2021, one of the lowest in Latin America. The debt sustainability analysis shows that public debt peaked at 65.6 percent of GDP in 2020, declining thereafter to close to 49½ percent of GDP by 2027 (see Annex III). The primary surplus of about 0.6 percent of GDP expected under the fiscal rule for 2027 compares favorably with the primary deficit of about 0.3 percent of GDP required to maintain the debt to GDP ratio constant under the Debt Sustainability Analysis (Annex III).



Source: MEF and IMF staff calculations.

III. Monetary Policy. *Panama continues to perform strongly in the monetary policy area.*

- ***Criterion 6. Low and stable inflation, in the context of a sound monetary and exchange rate policy framework***. As a fully dollarized economy and without a central bank, Panama's monetary policy tracks the U.S. Federal Reserve's policies. The dollarization regime has been in place for over a century and there is no expectation of a change in regime. This has led to stable and low single-digit inflation of below 2 percent over the last 5 years. Inflationary expectations remain well-anchored and remain around 2 percent over the medium term.



Sources: INEC, EIU and IMF staff calculations.
1/ As reported by the Economist Intelligence Unit (EIU).

IV. Financial Sector Soundness and Supervision. *Panama does not substantially underperform in the financial sector soundness and supervision area. The main reason for not performing strongly in this area is the potential risk stemming from Panama being on the FATF grey list.*

- ***Criterion 7. Sound financial system and the absence of solvency problems that may threaten systemic stability.*** The financial system in Panama is relatively sound; and bankruptcies are rare and effectively addressed:

  - ***Well-capitalized and liquid banking system.*** Panama's banking system remained stable, well capitalized, and liquid. The regulatory capital adequacy ratio stood at 15.3 percent as of end-March 2022 (compared to 15.8 percent as of end-2021), double the minimum requirement of 8 percent. Bank liquidity stood at 58.5 percent of short-term deposits as of end-May 2022, almost double the regulatory minimum of 30 percent. The NPL ratio rose to 2.5 percent in March 2022 (2.3 percent at end-2021), driven largely by onshore private banks, which comprise around 90 percent of total assets in the banking sector, as nonperforming loans are being recognized following the end of the moratorium on loan service in June 2021 and conclusion of the window period for the restructuring of modified loans between banks and affected borrowers in September 2021. The authorities established a Fund for Economic Stimulus (FES) in August 2020, resembling a lender of last resort (LOLR) facility, as a precautionary measure to safeguard financial stability by providing timely liquidity in times of financial stress. As of end-May 2022, no banks had used the liquidity facility under the FES, underscoring the continued resilience of the banking sector. Out of the US$500 million earmarked for the credit stimulus facility under the FES, only US$86.5 million had been drawn as of end-May 2022.

  - ***Marked progress in loan restructuring.*** The moratorium on loan servicing, aimed at safeguarding the solvency of the banking system during the height of the pandemic, ended in June 2021. A window period between July to September 2021 was further granted to facilitate the restructuring of the modified loans between affected borrowers and banks. As of end-March 2022, the share of modified (local) loans to total (local) loans had declined significantly to 11.9 percent, from its peak of 47.6 percent in July 2020, indicating that loans modified during the pandemic were increasingly being serviced. Banks were required, under Rule 9, 2020, to create an *ad hoc* provision equivalent to 3 percent of the gross modified loan portfolio to alleviate credit risks associated with the moratorium. The authorities continued to undertake stress tests to guide the recalibration of provisions for these modified loans and intend to increase the level of provisioning to safeguard financial stability. Depending on banks' exposure and circumstances, some may require higher additional provisioning than others.

- ***Financial integrity risks.*** The longer Panama remains on the FATF grey list the more potential risks there are to the financial system, including a possible loss of correspondent banking relationships. This risk was elevated after FATF urged Panama to demonstrate significant progress in completing its action plan. To mitigate these risks, the authorities have reiterated their commitment to implement the remaining items on the FATF action plan by end-2022 to further strengthen the effectiveness of their AML/CFT regime with the goal of exiting the grey list soon after. At this stage, Panama has not felt any adverse effects of the FATF grey listing on its financial system, but the authorities remain committed to take the necessary measures to continue strengthening their AML/CFT regime. However, the European Union's blacklisting of Panama as a noncooperative jurisdiction for tax purposes adds to the reputational risk and international pressure faced by Panama and also remains to be resolved.

- ***Criterion 8. Effective financial sector supervision***. Panama has one of the most prudent financial authorities in Latin America and adheres to a modern regulatory framework and strict supervisory standards.

  - ***FSAP.*** Panama's authorities have implemented most of the main recommendations from the last Financial Sector Assessment Program (FSAP), conducted in 2011. In particular, they introduced the real-time gross settlement system (RTGS), implemented stress tests including the publication of the Financial Stability Report on an annual basis, and strengthened surveillance of real estate developments with the establishment of a residential housing price index. To further fortify the sector, an FSAP Update is scheduled for mid-2023.

  - ***Supervision***. To safeguard financial stability, the SBP had intensified its prudential supervision on banks, focusing on two key areas. First, an exhaustive review of banks' loan portfolio encompassing modified and normal loans, financial health of borrowers, and effectiveness of loan restructuring. Second, ensuring that loans that are modified under the moratorium complied strictly to the parameters and guidelines in Rule 2, 2021. Repayments from the modified portfolio and accrued interest receivable are subject to special monitoring on a weekly basis. Additionally, banks' expected loss models were inspected to ensure proper calibration to guide loan-loss provisioning. An ad hoc regulatory requirement (Rule 9, 2020) required banks to create a generic provision equivalent to 3 percent of the gross modified loan portfolio,[3] precipitating an increase in the ratio of loan-loss provision-to-NPL to 174 percent at the end of 2021, from 102 percent in 2019 before the escalation of the COVID-19 pandemic.

V. Data Adequacy. *Panama does not substantially underperform in the data adequacy area. Data provided to the Fund has some shortcomings but is broadly adequate for surveillance. Shortcomings are in part related to the coverage, periodicity and timeliness of some data series. Both Panama's recent publication of the data template for international reserves and foreign currency liquidity and meeting the structural benchmark on fiscal data are important steps toward meeting SDDS requirements. The main reason for not performing strongly in this area is because of some weakness in data dissemination. Panama's SDDS subscription should support upgrading Panama's performance in this area to strong.*

- ***Criterion 9. Data transparency and integrity.*** All three of the statistical-related structural benchmarks have been met with the one related to resuming the publication of fiscal data met ahead of its end-March 2022 target. Anchored by the revamped National Statistical Council and guided by recent ROSC the authorities are making strong progress to meet the requirements for SDDS subscription. [4], Areas in need of data improvement in order to subscribe to SDDS include central government operations; production index (IMAE); producer price index and labor market. The authorities' ongoing efforts to improve the frequency and timeliness of central government operations data and timeliness of the IMAE will help address some of the pending requirements.

2. Institutional strength. Panama is a dollarized economy with no independent monetary policy (and no Central Bank), where institutional quality of economic policy is centered on fiscal policy and underpinned by the fiscal and social responsibility law which provides a strong fiscal anchor. As a large financial center, Panama's institutional strength relies on an effective prudential and modern regulatory framework following best international practices, allowing effective adjustment to shocks, including during the Global Financial Crisis and the COVID-19 pandemic. Banking practices in Panama are conservative as banks choose to operate with unusually large capital and liquidity buffers. According to the 2020 Worldwide Governance Indicators, which report on six dimensions of governance, Panama performs similar to the Latin American and Caribbean average in most dimensions.[5] Voice and accountability, government effectiveness, as well as regulatory quality scores in Panama are solid and above regional averages, with point estimates of

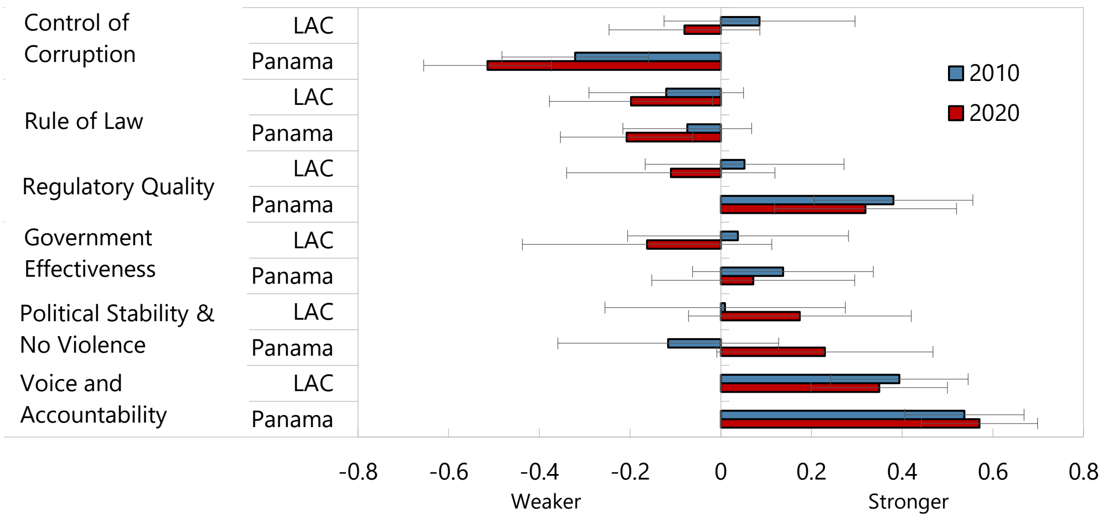
[3] The moratorium on servicing bank loans, which includes voluntary loan restructuring, grace periods, and in some cases interest rate reduction, is not extended beyond June 30, 2021.

[4] The 2020 data ROSC update concluded that Panama has a well-developed macroeconomic statistical system and the government recognizes the importance of good statistics for policy and investment decisions, and that for the most part Panama observes or largely observes international best practices and has made p rogress toward meeting the SDDS requirements.

[5] The Worldwide Governance Indicators (WGI) estimate ranges from -2.5 (weakest) to 2.5 (strongest), with zero corresponding to median governance performance.

0.6, 0.1 and 0.3 respectively. An area where governance should be improved includes Panama's control of corruption with a point estimate of -0.5. Other areas, such as the rule of law while broadly similar to most Latin American countries, also need improvement (see chart).

Worldwide Governance Indicators 1/



Sources: Worldwide Governance Indicators (WGI), Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*, and IMF staff calculations.
1/ The WGI estimates ranges from -2.5 (weakest) to 2.5 (strongest), with zero corresponding to a median governance performance. Use of these indicators should be considered carefully, as they are derived from perception-based data. Ranges are for a 90 percent confidence interval. Latin America and the Caribbean (LAC) country group correspond to WEO definition.

Annex III. Debt Sustainability Analysis

1. **The amended fiscal rule will place public debt firmly on a declining path.** In the baseline scenario, public debt steadily declines from its peak in 2020 (65½ percent of GDP) to 49¾ percent of GDP in 2027. This is possible thanks to a continuous improvement in the primary balance to GDP (from a 8¼ percent of GDP deficit in 2020 to a 0.6 percent of GDP surplus in 2027), and to a consistently positive differential between real GDP growth and the real effective interest rate. After peaking at 15.6 percent of GDP in 2020, gross financing needs will gradually shrink until reaching 4.0 percent of GDP in 2027, below the 2010–18 average (6½ percent of GDP). This is the result of a decreasing headline deficit, combined with the concentration of net borrowing on instruments with medium-and long-term maturities, essentially global bonds and multilateral debt. While external financing requirements and the share of debt held by non-residents will remain high over the projection horizon, full access to international markets at a low spread on US debt is expected to prevail in the baseline scenario.

2. **While the debt to GDP ratio would increase under negative scenarios, eventually it declines.** Debt to GDP would only breach the 70 percent of GDP threshold under two shocks: (i) a one-standard deviation two-year growth shock, that would drive the debt to GDP ratio to 73 percent in 2024; (ii) the crystallization of contingent liabilities stemming from the financial sector, involving government's bail outs to banks by 10 percent of the outstanding credit to the private sector, that would raise debt up to 82 percent in 2024. Nonetheless, in both scenarios debt to GDP would decline after 2024. By contrast, debt would remain below the threshold if the calibrated shocks on real interest rates, primary balance and the real exchange rate took place. In terms of gross financing needs, only the contingent liability shock would produce a breach of the 15 percent of GDP benchmark (by 5 percent of GDP) in 2023, its year of occurrence. As regards potential vulnerabilities in the debt profile, the most relevant one is given by a high level of external financing requirements (76 percent in 2020), but this is mainly explained by the fact that Panama and its banks have considerable external liabilities -principally deposits-, although matched by sizeable liquid assets.

3. **Public debt sustainability is also assessed in an adverse scenario, in which the PLL is disbursed in 2022.** The adverse scenario reflects lower nominal GDP growth in 2022, due to more protracted than expected effects of the pandemic (3.5 percent less growth). In addition, an increased perception of risk raises interest rates of new debt issues by almost 1 point in 2022, and refinancing conditions become more unpredictable. However, due to the temporary nature of the shock nominal interest rates catches up with the baseline rates from 2023, and the risk premium on public debt gradually narrows until converging with the baseline towards the end of the projection period. As a result, public deficit expands in 2022 from 4 percent of GDP in the baseline to 5.7 percent in the adverse scenario, and in 2023 from 3 percent of GDP in the baseline to 3.8 percent in the adverse. From 2024, public deficit is the same as in the baseline. This implies higher gross financing needs in the adverse scenario, by US$1 and 0.2 billion in 2022 and 2023 respectively. These magnitudes reflect higher deficits in both years in the adverse scenario, although this is mitigated in the adverse scenario by lower amortizations stemming from reduced short-term issuances in 2022.

Refinancing difficulties lower the resort to external and domestic issuances by US$0.75 billion and US$1.5 billion in 2022 and 2023 respectively, so that the increased gross financing needs have to be met by drawing down the PLL (US$1.3 billion by year) and, to a much lesser extent, through additional asset withdrawals by US$0.4-0.5 billion each year. Financing from multilaterals other than the IMF is assumed to be the same as in the baseline in 2022–23.

4. In the adverse scenario, public debt still peaks in 2020 and follows a declining path until 52 percent of GDP in 2027. The driving forces of this reduction in public debt are the same as in the baseline, although its levels are consistently higher in the baseline as a result of increased financing needs in 2022–23, but also of a persistent difference in GDP levels throughout the whole projection horizon. Gross financing needs in the adverse scenario would be higher than in the baseline in 2022–23, by US$1 and US$0.2 billion respectively. In 2024-25, gross financing needs in US$ would be slightly lower in the adverse scenario, since deficit to GDP is anchored in the baseline but GDP is lower in the adverse scenario, and in 2026-27 gross financing needs would be higher again in the adverse scenario, as a result of the PLL amortization from 2026. As in the baseline, public debt would exceed its 70 percent of GDP threshold under the GDP and the financial contingent liabilities shocks, reaching their peak at 76 and 85 percent of GDP respectively, although in both cases debt would decline thereafter until reaching 72 and 81 percent of GDP in each case. Gross financing needs would exceed their 15 percent of GDP threshold only under a contingent liability shock, reaching 21 percent of GDP in 2023 but gradually coming down to 8 percent of GDP by 2027.

Figure AIII.1. Panama: Public Sector Debt Sustainability Analysis—Baseline Scenario

(In percent of GDP unless otherwise indicated)

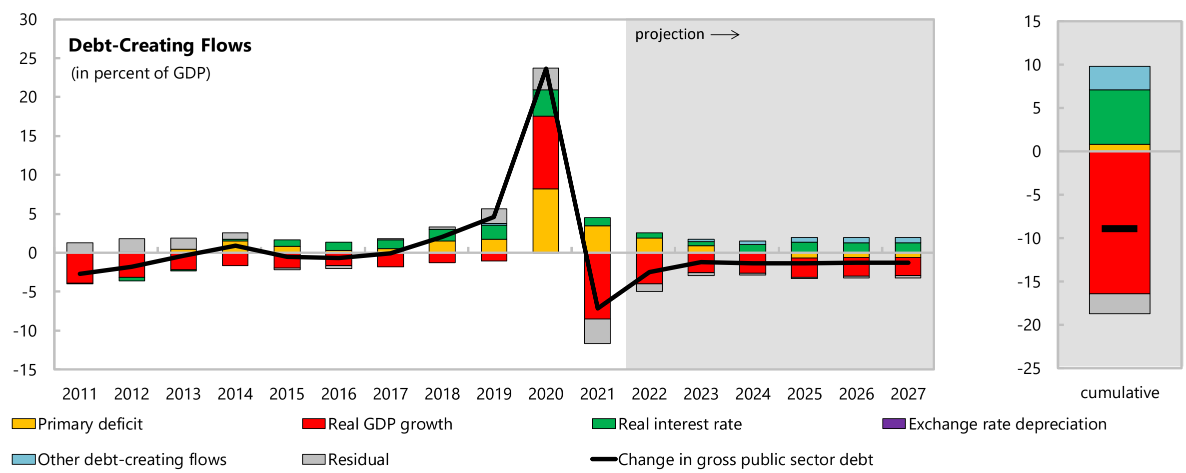
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2011-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	36.9	65.6	58.4	56.0	54.8	53.4	52.1	50.8	49.5
Public gross financing needs	6.3	15.6	13.4	6.6	5.7	6.4	4.2	5.4	4.0
Net public debt	22.8	43.5	41.1	41.0	40.8	39.9	38.7	37.6	36.6
Real GDP growth (in percent)	6.2	-17.9	15.3	7.5	5.0	5.0	5.0	5.0	5.0
Inflation (GDP deflator, in percent)	3.2	-1.8	2.2	3.2	3.4	2.5	2.0	2.0	2.0
Nominal GDP growth (in percent)	9.7	-19.4	17.8	11.0	8.6	7.6	7.1	7.1	7.1
Effective interest rate (in percent) [4/]	5.4	5.0	4.4	4.7	4.6	4.7	4.8	4.8	4.8

As of June 09, 2022		
Sovereign Spreads		
EMBIG (bp) 3/		215
5Y CDS (bp)		116
Ratings	Foreign	Local
Moody's	Baa1	Baa1
S&Ps	BBB	BBB
Fitch	BBB-	BBB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.2	23.7	-7.1	-2.5	-1.2	-1.4	-1.3	-1.3	-1.3	-8.9	
Identified debt-creating flows	-0.6	20.9	-4.0	-1.4	-0.8	-1.1	-1.2	-1.1	-1.0	-6.6	
Primary deficit	0.8	8.2	3.5	1.9	0.9	-0.1	-0.7	-0.6	-0.6	0.8	-0.4
Primary (noninterest) revenue and grants	20.4	18.0	17.8	19.4	19.6	20.0	20.3	20.5	20.8	120.6	
Primary (noninterest) expenditure	21.1	26.2	21.3	21.2	20.5	19.9	19.6	19.9	20.2	121.4	
Automatic debt dynamics [5/]	-1.4	12.7	-7.5	-3.3	-2.0	-1.5	-1.1	-1.1	-1.1	-10.1	
Interest rate/growth differential [6/]	-1.4	12.7	-7.5	-3.3	-2.0	-1.5	-1.1	-1.1	-1.1	-10.1	
Of which: real interest rate	0.7	3.4	1.0	0.7	0.5	1.1	1.4	1.3	1.3	6.3	
Of which: real GDP growth	-2.1	9.3	-8.5	-4.0	-2.6	-2.5	-2.5	-2.4	-2.4	-16.4	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.3	0.4	0.6	0.7	0.7	2.7	
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	
FAP asset changes	0.0	0.0	0.0	0.0	0.3	0.4	0.6	0.7	0.7	2.7	
Residual, including other asset changes [8/]	0.8	2.8	-3.1	-1.0	-0.4	-0.2	-0.2	-0.2	-0.3	-2.3	



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

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.

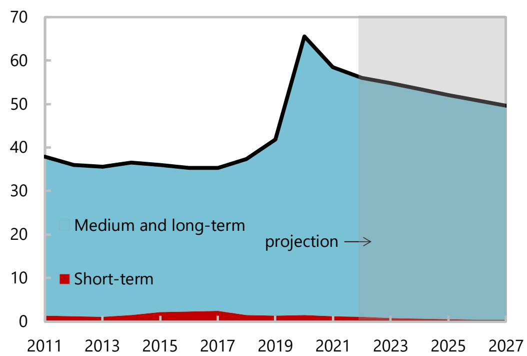
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure AIII.2. Panama: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

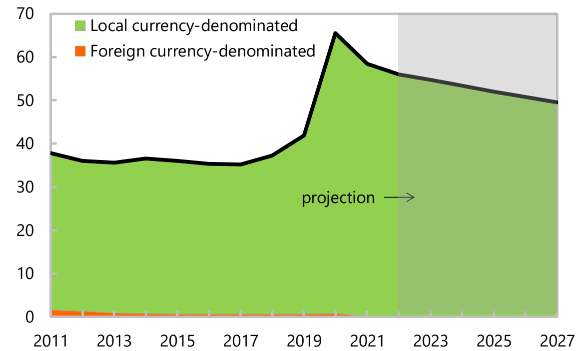
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

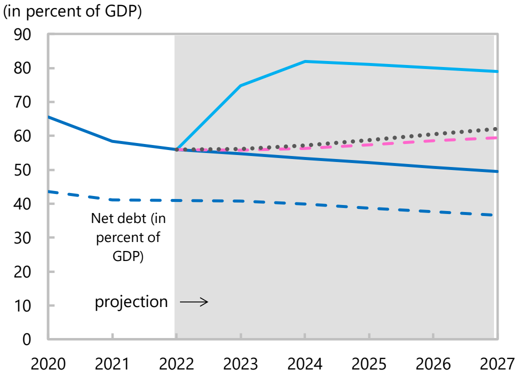


Alternative Scenarios

Baseline
Contingent Liability Shock
Historical
Constant Primary Balance

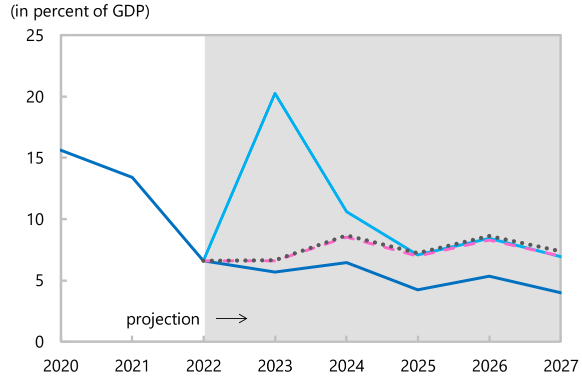
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	7.5	5.0	5.0	5.0	5.0	5.0
Inflation	3.2	3.4	2.5	2.0	2.0	2.0
Primary Balance	-1.9	-0.9	0.1	0.7	0.6	0.6
Effective interest rate	4.7	4.6	4.7	4.8	4.8	4.8
Constant Primary Balance Scenario						
Real GDP growth	7.5	5.0	5.0	5.0	5.0	5.0
Inflation	3.2	3.4	2.5	2.0	2.0	2.0
Primary Balance	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Effective interest rate	4.7	4.6	4.7	4.9	4.8	4.9

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	7.5	4.2	4.2	4.2	4.2	4.2
Inflation	3.2	3.4	2.5	2.0	2.0	2.0
Primary Balance	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Effective interest rate	4.7	4.6	4.8	5.0	5.1	5.2
Contingent Liability Shock						
Real GDP growth	7.5	-3.6	-3.6	5.0	5.0	5.0
Inflation	3.2	1.2	0.3	2.0	2.0	2.0
Primary Balance	-1.9	-14.7	0.1	0.7	0.6	0.6
Effective interest rate	4.7	5.0	5.8	5.9	5.8	5.8

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

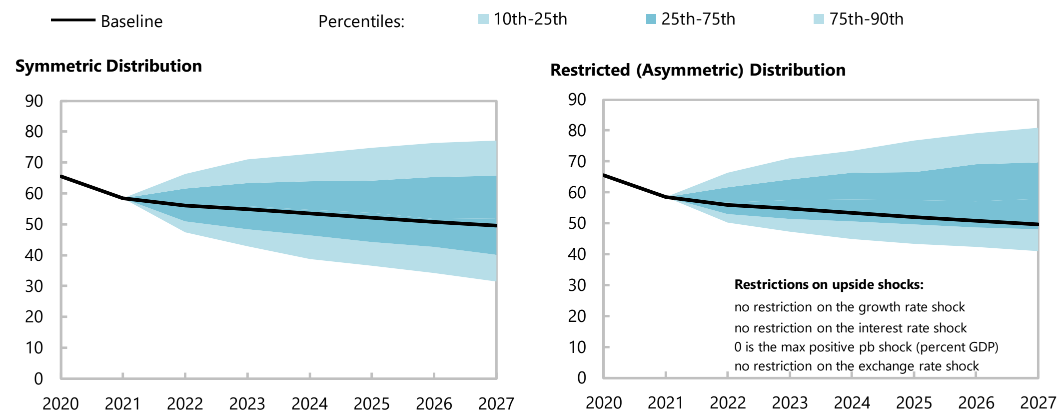
Figure AIII.3. Panama: Public Debt Sustainability Analysis—Risk Assessment

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

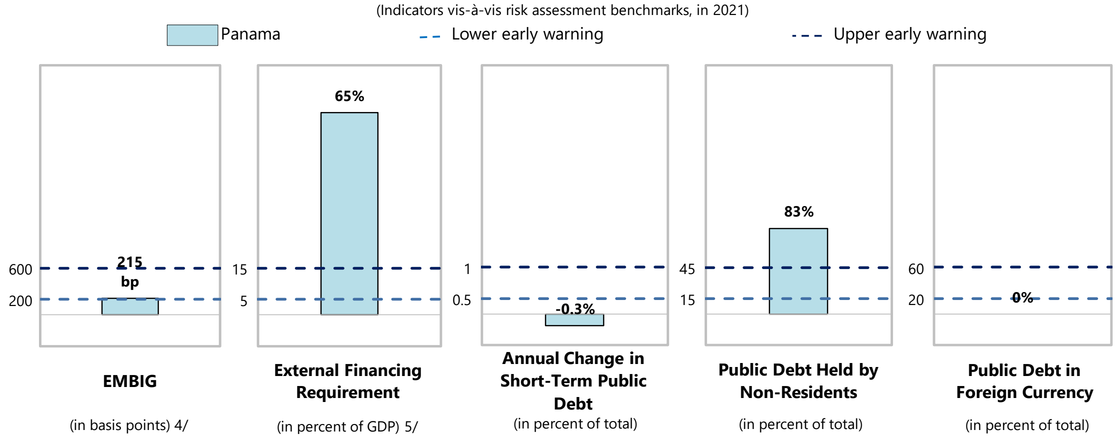
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



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

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.

4/ EMBIG, an average over the last 3 months, 9-Mac-2022 through 9-Jun-2022.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex IV. Data Adequacy Work Plan

(Based on ROSC Recommendations and PLL Structural Benchmarks)

No.	Main Action	Leading Agency
	PLL: Structural Benchmarks	
1	Establish a National Statistical Coordination Committee [1]	INEC
2	Publish the Data Template on International Reserves [1]	INEC/SBP
3	Resume quarterly publication on the INEC website of the Fiscal Operations of CG and GG adding detailed financing data [1]	MEF/INEC
	ROSC: Cross-cutting Recommendations	
4	Update National Statistical Plan [1]	INEC
5	Re-Institute the National Statistical Council [1]	INEC
6	Establish a National Statistical Coordination Committee [1]	INEC
7	Improve INEC Brand including structure of website and visibility of logos [2]	INEC
8	Strengthening Key Macroeconomic programs	
	Sufficient budgetary, human, and information technology resources to INEC to improve quality in all areas of macroeconomic statistics [2]	INEC/MEF/SBP
	Human resources should maintain and expand expertise [2]	INEC/MEF/SBP
	Consultation with users [2]	INEC
9	Innovation, Research and Analysis	
	The mission recommended that INEC appoint a senior manager to promote innovation across the organization (e.g., Chief Innovation Officer) [2]	INEC
	ROSC: Data Category Specific Recommendations	
	National Accounts:	
10	Update Benchmark year to 2017/2018 will improve the overall quality of data and relevance for users [2]	INEC
11	Develop an aggressive plan to update national accounts benchmarks. The project should also include investment in the underlying source data and statistical infrastructure (such as classification systems) to ensure that the national accounts benchmarking occur every five years [2]	INEC
	Consumer Price Indices: Household Income Expenditure Survey and Price Collection	
12	Allocate needed human resources and computer and transportation equipment to the Price and Standard of Living Section (PSLS) and the regional offices of the CG for conducting price investigations and CPI compilation [3]	INEC
13	Hold regular meetings (at least twice per year) between collection staff in Panama City and the regions to ensure consistent price collection [3]	INEC

No.	Main Action	Leading Agency
14	Complete the processing of the 201718 HIES as planned and update the CPI weights and include expenditures of all households in the income distribution. HIES and weights update should be conducted every five years [3]	INEC
Government Finance Statistics		
15	Fix the ISTMO system and restart data compilation and dissemination of central and general government operations, including data on financing [2]	MEF/INEC
16	Source data provision must be carried out using electronical workable files containing monthly details [3]	MEF
17	Compilation of preliminary GFS and PSDS reports should be established for statistical purposes [3]	MEF
18	The MEF should implement a performance system to evaluate efficient use or resources [3]	MEF
19	Consideration should be given to implementing a formal program to ensure data quality [3]	MEF
20	Revise historical data with new information and bring it in line with new methodologies or provide metadata to explain the break in series and implement a revisions policy [3]	MEF/INEC
21	Improve the analytical usefulness of the data by disseminating longer time series [3]	MEF/INEC
22	Post the metadata on the INEC website and provide links from the INEC and MEF websites to the IMF's website [3]	MEF/INEC
23	Publish a GFS publications catalogue to assist users in finding the data [3]	MEF/INEC
Monetary and Financial Statistics		
24	Establish a formal mechanism to elicit users' needs, particularly those in the non-banking private sector [2]	INEC/SBP
25	Improve the sectorization of the public sector by following international accepted methodology [3]	SBP
26	Expeditiously implement plans to prepare and publish monetary and financial statistics according to international standards [3]	INEC/SBP
27	Publish an advance release calendar [3]	INEC/SBP
28	Enhance users access to the metadata, provide a link from the SBP webpage to the IMF's e-GDDS webpage [3]	SBP
Balance of Payments Statistics		
29	Establish a close relationship with other public institutions that provide source data for the compilation of Balance of Payments statistics to facilitate data sharing and coordination. Expand the number of interinstitutional arrangements [3]	INEC
30	Foster training of BOPS staff through participation seminars and courses in Regional Training Centers, such as CAPTAC-DR, IMF HQ, and training offered by other international organizations [3]	INEC
31	Consideration should be given to implement a formal program to ensure data quality [3]	INEC

No.	Main Action	Leading Agency
32	Aim at limiting the size of revisions to the balance of payments statistics by implementing plans to improve the quality of source data. Explore the possibility that deficiencies in measurement— including of capital flows—have caused high errors and omissions in the balance of payments [3]	INEC
33	Achieve coherent presentation of ESS tables and formats in INEC publications by using the BPM6 classification consistently [3]	INEC
34	Implement a permanent communication strategy to convey to users revisions on ESS series [3]	INEC

Source: Report on the Observance of Standards and Codes (ROSC) and Fund staff.

Notes: INEC: Instituto Nacional de Estadística y Censo; MEF: Ministerio de Economía y Finanzas. SBP: Superintendencia de Bancos de Panama.

1/ Already completed.

2/ Work in progress.

3/ To be included in the National Statistical Plan (2021–25).

Annex V. External Economic Stress Index

1. Methodology. The External Economic Stress Index (EESI) is an indicator of the evolution of external risks faced by Panama, in particular risks associated with changes in external demand and global financing conditions. The index consists of four variables: (i) the U.S. growth rate (a proxy for the risks to FDI inflows); (ii) world exports (a proxy for net exports in the current account); (iii) the change in the 10-year U.S. Treasury yield (a proxy for risks to the portfolio liabilities in the financial account), and (iv) the volatility index VIX (a proxy for the risks to other investments in the financial account). The EESI is calculated as a weighted sum of standardized deviations of the above variables from their means. The weights are estimated using balance of payments and international investment position data. The weight on U.S. growth rate corresponds to the net FDI inflows. The weight on world growth corresponds to the net exports of goods and services. The weight on the VIX corresponds to the stock the other investment in the financial account. The weight on the U.S. Treasury government bond corresponds to the sum of portfolio liabilities in the financial account.

External Risks, Proxy Variables, and Weights

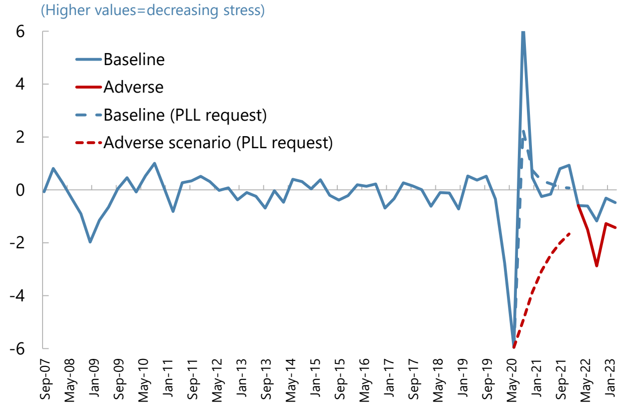
External Risks	Channels	External Proxy Variables	Weights
External Demand	Net Exports	World GDP Growth	0.31
	FDI	U.S. GDP growth	0.18
Global Financial Conditions	Portfolio Investment	Change in 10-year Treasury Yield	0.11
	Other Investment	VIX	0.40

Sources: Haver and WEO.

2. Scenarios. The baseline corresponds to the "July 2022 WEO Update" projections for U.S. and world GDP growth, while the VIX is assumed to remain around its current level and the 10-year U.S. Treasury yield is assumed to increase gradually. The adverse scenario reflects a recession in the U.S. and global economy, combined with persistent financial market volatility.

3. Overall assessment. The EESI experienced a strong decline in the second quarter of 2020 due to the effects of the COVID crisis on the U.S. and global growth and financial market conditions, followed by a steep increase in the third quarter as lockdown restrictions were eased and growth in advanced economies was boosted by economic stimulus. External pressures have abated somewhat since the PLL approval in January 2021, given stronger-than-expected

External Economic Stress Index: Historical and Projection
(Higher values=decreasing stress)



Sources: WEO, Haver, and IMF staff calculations.

global growth, a strong U.S. recovery, and a reduction in the uncertainty surrounding vaccine development and deployment However, the Russian invasion of Ukraine in early 2022 has increased geopolitical tensions and led to disruptions in global recovery, with higher and more volatile food and energy prices. Growth prospects have declined in the US and the monetary tightening to curb inflation is expected to accelerate. External pressures faced by Panama have increased but are expected to remain manageable and in line with historical averages under the baseline. However, the materialization of downside risks would lead to a moderately heightened stress index.

Annex VI. Special Data Dissemination Standard Readiness

1. Special Data Dissemination Standard (SDDS) promotes data transparency for surveillance. The IMF established the SDDS in 1996 to provide guidance to countries that have or seek access to capital markets to disseminate key data so that users in general, and financial market participants, have adequate information to assess the economic situations of individual countries. The SDDS requires/prescribes the dissemination of key indicators in four sectors (real, fiscal, financial, and external) with specific frequency, timeliness, and coverage.

2. Underpinned by effective cross-agency collaboration and guided in part by the PLL structural benchmarks, Panama stands ready to meet broadly all SDDS data requirements. Meeting two of the PLL structural benchmarks (related to the reserve template and fiscal data) also helped meet SDDS requirements. Other recent efforts and authorities' immediate plans include the dissemination of:

- *Monthly central government operations with one month lag.*
- *Monthly depository corporation survey with one month lag.*
- *Daily interest rates (government security rates).*
- *Monthly official reserve assets with one week lag.*

Data Dissemination Practices

(As of December 1, 2021; reflects authorities plans)

SDDS Data Category	Coverage Panama's Practice	Periodicity SDDS	Periodicity Panama's Practice	Timeliness SDDS	Timeliness Panama's Practice
Real Sector					
National Accounts (economic activity)	Met	Q	Q	1Q	75D
Production Index	Met	M	M	6W	55D
Labor market: Employment	Met	Q	SA	1Q	90D
Labor market: Unemployment	Met	Q	SA	1Q	90D
Labor market: Wages/Earnings	Met	Q	SA	1Q	90D
Consumer Price Index	Met	M	M	1M	15D
Producer Price Index	Met	M	Q	1M	30D
Fiscal Sector					
General Government Operations 1/	Met	A	Q	2Q	45D
Central Government Operations 1/	Met	M	M	1M	1M
Central Government Gross Debt	Met	Q	M	1Q	1M
Financial Sector					
Depository Corporations Survey	Met	M	M	1M	1M
Central Bank Survey 2/	Met	M	M	2W	50D 2/
Interest Rates 3/	Met	D	M		1M
Stock Market	Met	D	M		1M
External Sector					
Balance of Payments	Met	M	Q	1Q	1Q
Official Reserve Assets 4/	Met	M	M	1W	1W
Reserve Template	Met	M	M	1M	1M
Merchandise Trade	Met	M	M	8W	45D
International Investment Position	Met	Q	Q	1Q	1Q
External Debt	Met	Q	Q	1Q	1Q
Exchange Rates 5/	Met		M		1M
Addendum					
Population	Met	A	A		1Y

Red	Not published or coverage requirements not met.
Yellow	Not meeting SDDS requirement for periodicity and timeliness.
Green	Meets SDDS requirements.

Source: IMF.

1/ Non-Financial Public Sector data is disseminated for General Government Operations.

2/ As Panama does not have a central bank, SDDS requirements do not bind. There is no monetary policy to justify a tighter timeliness than the 1M timeliness prescribed for Deposit Corporation Survey. Subscribers may take a flexibility option for periodicity and/or timeliness.

3/ Panama does not have a central bank and hence there is no policy rates; requirement is met disseminating short and long-term government securities. Subscribers may take an "as relevant" provision in case there is no policy rate.

4/ Data include the external assets of the government-owned main commercial bank, Banco Nacional de Panama in consistency with the Reserve Template.

5/ Panama is a dollarized economy. SDDS does not prescribe timeliness for re-dissemination of exchange rate available from other sources (SDDS Guide, par. 6.30). Subscribers may take a flexibility option for periodicity.

3. **Completing the pending requirements could be achieved with some additional efforts to accelerate the dissemination of the economic activity index (IMAE).** Panama could use the two regular flexibility options, allowed for SDDS subscribers, for Labor Market Data and Producer Price Index as Panama currently does not meet the SDDS frequency requirements. Reducing the lag in the dissemination of the IMAE will benefit from the authorities' ongoing efforts to improve the timeliness of the source data used in the production of the index. Against that background, once the lag in the dissemination of the IMAE is reduced, Panama would be in a position to subscribe to the SDDS.

Appendix I. Written Communication

REPÚBLICA DE PANAMÁ
GOBIERNO NACIONAL

MINISTERIO DE ECONOMÍA Y FINANZAS
Despacho del Ministro

Panama City, Panama
June 23, 2022

Mme. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC. 20431
United States

Dear Madame Georgieva:

1. Panama's economic fundamentals remain robust, and the economy continues recovering soundly from the shock of the century spurred by the COVID-19 pandemic in 2020 and now the ware in Ukraine. We remain committed to implementing sound economic and financial policies described in our Written Communications dated January 5 and July 15, 2021.

2. Panama requested a 2-year Precautionary and Liquidity Line (PLL) arrangement—approved by the IMF Board on January 19, 2021—to provide useful insurance against extreme adverse risks related to the pandemic while bolstering investor confidence. The last Article IV Consultation took place on June 14, 2021, and the First Review of the PLL was completed on July 28, 2021, with the IMF Executive Board noting that the performance under the program had been strong and Panama continued to meet the PLL qualification criteria. We continue to treat the PLL as precautionary and will draw on it only in the event of unforeseen exogenous shocks.

3. The objectives of the arrangement aim to speed up the pace of our public policy agenda to promote stronger, more inclusive growth while enhancing macroeconomic resilience and the robustness and integrity of the financial system. To this end, we remain committed to follow the Social and Fiscal Responsibility Law (SFRL) to achieve a gradual fiscal consolidation effort that would preserve fiscal and debt sustainability. We will also continue to focus on policy areas that can benefit from further strengthening, including: (i) the effectiveness of the anti-money laundering and combating the financing to terrorism (AML/CFT) regime; (ii) financial stability; (iii) public financial management, and (iv) data adequacy. As a result, we aim at boosting post-pandemic recovery, reinvigorating business confidence and exiting the FATF grey list as soon as possible. We maintain

our commitment to sound macroeconomic policies and responding to shocks as they arise. In the short run, our goal is to continue protecting the lives and livelihoods of our residents, including through our vaccination efforts and appropriate containment measures.

4. Following the SFRL, our objective is to reduce the fiscal deficit to 4 percent of GDP for this year. Robust growth, coupled with a gradual reduction in the primary deficit, will make it possible to start reducing public debt in terms of GDP from 2021 onwards. We expect that compliance with the fiscal rule will be possible thanks to the cyclical recovery during 2021–22, the phasing out of COVID-19 related spending, additional mining royalties and improvements in revenue administration, based on the implementation of modernization strategies in the DGI and Customs. In addition, we are committed to moderate expenditure growth over the next years to facilitate fiscal consolidation. Our fiscal strategy will be elaborated in a new Medium-Term Fiscal Framework, which will be developed during the 2023 budget preparation with expert technical assistance.

5. To strengthen Panama's financial integrity and exit the FATF grey list as soon as possible, we continue prioritizing the completion of all remaining items on the FATF Action Plan, working alongside the group of private advisors whom we engaged in 2020. The progress we achieved towards complying with the FATF standards with respect to the various remaining items on the Action Plan was recognized at the recent June 2022 FATF plenary, where it was decided that the number of "largely addressed" items on the Action Plan increased from eight to eleven (out of fifteen). We have intensified our efforts to urgently strengthen the AML/CFT framework in line with international standards, address the remaining deficiencies and engage in regular discussions with our technical assistance (TA) providers in this area, including the IMF and the World Bank. The list of recent measures include:

- Approval by the National Assembly, and enactment by the President of the Republic of Law 254, which addresses the shortcomings identified by the FATF, solving remaining legal impediments to the implementation of other remaining action items.

- Approval and publishing of the sectoral risk assessment of legal persons and its mitigation strategy, which provides significant progress to one of the remaining Action Plan items agreed with the FATF.

- Implementation of the Beneficial Owner Registry as part of our commitment to be able to access accurate information in a timely manner of Beneficial Owners of companies incorporated in Panama by law firms that act as resident agents and therefore address FATF concerns related to beneficial ownership.

- Increase in the number and the quality of designated non-financial business or profession (DNFBP's) supervisions that led to various sanctioning processes and sanctions imposed. In addition, extension of the Supervision Plan by the Superintendency of Non-Financial Subjects.

- Increase of the sanctioning threshold to US$5 million for non-compliance with the AML/CFT prevention regime, with the new amendments approved by Law 254 of November 11, 2021.

- New investigations related to money laundering offenses with different predicate offenses.
- First investigation by the Prosecutor Office, delivered by the General Revenue Directorate with the endorsement of the Administrative Tax Court, of the first possible case related to a tax crime.
- Evidence of the capacity of our system to investigate and prosecute money-laundering cases related to tax evasion with foreign precedent.

We remain committed to the four pillars of the FATF action plan which includes measures to:

- Strengthening the understanding of the national and sectoral money laundering and terrorism financing (ML/TF) risk of legal persons, as part of the corporate sector, and incorporating the findings into the national policies to mitigate the identified risks.
- Proactively continuing to take action to identify unlicensed money remitters, applying a risk-based approach to supervision of the designated non-financial business and professions (DNFBP) sector and ensuring effective, proportionate, and dissuasive sanctions again AML/CFT violations.
- Ensuring adequate verification of up-to-date beneficial ownership information by the reporting entities, establishing effective mechanisms to monitor the activities of offshore entities, assessing the existing risks of misuse of legal persons and arrangements to define and implement specific measures to prevent the misuse of nominee shareholders and directors, and ensuring timely access by competent authorities to adequate and accurate beneficial ownership information.
- Ensuring effective use of financial intelligence unit (FIU) products for ML investigations, demonstrating its ability to investigate and prosecute ML involving foreign tax crimes and continuing to provide constructive and timely international cooperation for such offences and to focus on ML investigations in relation to high-risk areas identified in Panama's National Risk Assessment and Mutual Evaluation Report.

By end-December 2022, we intend to implement the remaining items of the FATF action plan to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the FATF list of jurisdictions with strategic deficiencies. We will coordinate closely our work with our technical assistant partners and GAFILAT to ensure a speedy implementation of the remaining items of the FATF action plan.

[We agree that the Board meeting will only take place after] The Superintendency of Non-Financial Entities (SSNF) has undertaken a process of identification and compilation of information maintained by law firms acting as resident agents on companies and their beneficial owners and completed the upload of more than 18,000 companies to the registry with the corresponding beneficial ownership information.

6. Panama's banking system remained stable after the moratorium on loan service ended on June 30, 2021 as banks continued to be well-capitalized and liquid. At end-2021, total regulatory capital adequacy ratio stood at 15.9 percent, compared to 15.7 percent as of end-2020. Liquidity remained high as short-term assets covered 57.8 percent of short-term deposits as of end-April 2022, almost double the regulatory minimum of 30 percent. The restructuring of modified loans between affected borrowers and banks continued to progress as envisioned, particularly during the window period between July and September 2021 following the end of the moratorium. The share of modified (local) loans to total (local) loans had declined significantly to 11.9 percent at end-March 2022, from its peak of 47.6 percent in July 2020. Recognizing the importance of safeguarding financial stability, we intend to maintain the Fund for Economic Stimulus (FES) established in August 2020 as a safety net to provide timely liquidity and credit in times of financial stress. As of end-May 2022, no commercial banks had used the liquidity facility under the FES, underscoring the continued resilience of the banking sector. We remain committed to ensuring the stability and soundness of Panama's financial system and will continue to intensify prudential supervision to ensure that banks remain well capitalized and provisioning for loan losses is adequate.

7. Our adherence to the fiscal rule will also be possible thanks to the implementation of a two-year Action Plan geared towards improving our Public Financial Management practices and avoiding the resurfacing of arrears. One key element of this plan is the approval of a new General Budget Law that toughens the sanctions against the use of unappropriated resources and develops medium-term budgeting. We have submitted the Draft Law to the Assembly, with a view to initiate its implementation during the preparation of the budget for 2023. Besides, this Action Plan includes the completion of the Treasury Single Account and the enhancement of expenditure controls and accounting practices, to ensure the transparent disclosure of arrears in financial statements and fiscal reports. We are also committed to continue publishing on a regular basis the expenditures under our COVID-19 programs—both health-related and social support through *Panamá Solidario*—as well as publishing the audit results of those programs in 2022.[1] Finally, we are working towards fully implementing the new Law 152 of May 8, 2020 on Public Procurement, including the creation of an Observatory of Procurement that was made operational in June 2021, and improving the informational content and presentation of the government's website on procurement.

8. Our policy agenda also includes strengthening data adequacy and provision. Panama has a well-developed macroeconomic statistical system which could be further strengthened in some areas to support policymaking and surveillance. The Reports on the Observance of Standards and Codes (ROSC) released in early 2020 provide useful guidelines, and this government remains committed to closely follow their recommendations, including on making the necessary improvements to adhere to the Special Data Dissemination Standard (SDDS) during the PLL. We have completed all structural benchmarks established in the PLL in this area by: (i) strengthening

[1] https://www.mef.gob.pa/wp-content/uploads/2020/11/Informe-General-de-Finanzas-Publicas-y-Acciones-del-Gobierno-4.pdf; https://app.powerbi.com/view?r=eyJrIjoiOGUwODRjMjUtOTg0MC00MjE0LWI3OWItY2I4NjA2ZjIxZTRmIiwidCI6ImYwODRmODMxLWJjODYtNGYwNS04OWM0LTk0YmU1MDUyZTU1NSIsImMiOjF9

the National Statistics Council to bring together data producers and data users in support of the National Statistics Plan (structural benchmark by end-May 2021); (ii) publishing the data template on international reserves and foreign currency liquidity (structural benchmark for end-September 2021); and (iii) resuming quarterly publication at the National Institute of Statistics (INEC) of the fiscal operations of the Central Government and General Government, which are elaborated by the Ministry of Economy and Finance, adding detailed financing data, (a structural benchmark by end-March 2022). We have also stepped up our efforts to advance our data adequacy agenda by implementing the following actions:

- Significant progress towards subscribing to SDDS by enhancing the coverage, periodicity, and timeliness of data reporting. In particular, we are working on: (i) publishing metadata for SDDS related data categories on the National Summary Data Page (NDSP) and a draft of an Advance Release Calendar by end-September 2022; and (ii) improving the periodicity of labor market indicators (employment, unemployment and wages/earning) in line with an SDDS requirement moving from semiannual to quarterly periodicity by end-December 2022.

- Rebasing Panama's National Accounts to 2018 and adopting the 2008 System of National Accounts conceptual framework during 2023. To this end, we have advanced the preliminary work by securing the assistance of an international expert.

9. Indicative targets under the PLL arrangement for end-September 2021 and end-March 2022 were met. In line with PLL requirements, we have complied with, and will continue to comply with the standard performance criteria on trade and exchange restrictions, bilateral payment agreements, multiple exchange rate practices and non-accumulation of external debt arrears.

10. As a member of the IMF, we will continue providing the IMF with all the information needed regarding our economic and policy developments within the framework of the PLL arrangement and the Fund's Articles of Agreement. The working groups we have created with Fund staff to monitor advances in the different policy areas under the PLL arrangement ahead of the semiannual PLL reviews have held recurring meetings and will continue meeting regularly. In line with the requirements of the PLL, we will also observe the standard criteria on trade and exchange restrictions.

11. We believe that the policies described in this communication are adequate to achieve the economic goals of the program supported by the PLL, and we are committed to taking any additional measures that may be necessary for this purpose. By continuing to strengthen Panama's economic recovery, financial integrity, fiscal discipline and the investment climate, the country should be well positioned for exiting the PLL once the exogenous risks subside. We will engage with the Fund, in accordance with relevant Fund procedures, to ensure the success of our economic policies.

/s/

Héctor E. Alexander H.
Minister of Economy and Finance

Table 1. Panama: Quantitative Indicative Targets

	March 31, 2021		September 30, 2021		March 31, 2022	
	Target	Actual	Target	Actual	Target	Actual
National Government deposits 1/	1,000	4,228.6	1,000	2,592.1	1,000	3,963.1
Official Banks' liquidity buffers 2/	30	84.1	30	80.5	30	82.2

Sources: IMF staff estimates, BNP, and SBP.

1/ Refers to National Government deposits at the Banco Nacional de Panama (BNP), measured in millions of U.S. dollars.

2/ Defined as the ratio of liquid assets to net deposits as per Superintendency of Banks' Guidelines. Official banks comprise Banco Nacional de Panama and Caja de Ahorros. Official banks have maintained liquidity buffers significantly higher than the legal requirement and the indicative target. These buffers are expected to continue at those levels.

Table 2. Panama: Structural Benchmarks

	Measure	Target	Status
A.	Establish a National Statistical Council (NCS) that meets twice annually with members from INEC, CG, MEF, NBP, SBP, private and academic sectors, who are appointed by the Comptroller with INEC serving as a secretariat of the NCS, overseeing the operational aspects of the council's work.	May 31, 2021	Done 1/
B.	Publish the Data Template on International Reserves and Foreign Currency Liquidity on the National Summary Data page (NSDP) with assistance from the Fund.	September 30, 2021	Done 2/
C.	Adopt measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the FATF list of jurisdictions with strategic deficiencies.	October 31, 2021	Not met
D.	Resume quarterly publication of the Fiscal Operations of Central Government (CG) and General Government (GG), which are elaborated by the Ministry of Economy and Finance, adding detailed financing data, at the National Institute of Statistics (INEC).	March 31, 2022	Done 3/

1/ A resolution to reorganize, reactivate and advance the functions of the existing National Statistical Council was published in the Official Gazette on May 27, 2021. The council is headed by the comptroller and INEC, with the Ministry of Finance as vicepresident. The council members include the different official agencies that produce data as well as private and academic sectors as data users, among others.

2/ The data template was published on Panama's NSDP on September 30, 2021 by INEC.

3/ Data was published on November 22, 2021.

Table 3. Panama: Prior Action

Measure	Target Date
To continue strengthening the AML/CFT framework, including the effectiveness of the ultimate beneficial ownership registry and information on resident agents, the Superintendency of Non-Financial Entities ("Superintendencia de Sujetos No Financieros-SSNF") will undertake a process of identification and compilation of information, maintained by law firms acting as resident agents, on companies and their beneficial owners and upload at least 18,000 companies to the registry, with the corresponding beneficial ownership information.	Met

Statement by Mr. Bevilaqua, Executive Director for Panama,
Mr. Fuentes, Alternate Executive Director for Panama, and
Mr. Fisher Hogan, Advisor to the Executive Director for Panama
July 15, 2022

On behalf of our Panamanian authorities, we thank the invaluable support of Mr. Santos, and Mr. Bakker, as the incoming mission chief, with a special mention to the former Advisor for Panama, the late Alfredo Macia, for his dedicated work and professionalism. Panama continues to meet all qualification criteria for access to the Precautionary Liquidity Line (PLL), and the steadfast engagement of the authorities have kept policies implementation on track. All indicative targets were met with large margins. Two of the three structural benchmarks were timely met, and significant progress was achieved on the third one related to the implementation of the AML/CFT measures. The authorities reiterate their commitment to maintain strong economic fundamentals and sound policy frameworks, including the implementation of the fiscal rule to guarantee debt sustainability over the medium-term. More importantly, they remain fully committed to financial integrity and have made significant progress in the implementation of the FATF action plan. They remain dedicated to implement measures that will allow Panama to exit the FATF grey list as soon as feasible.

Recent Developments and Macroeconomic Outlook

Panama continues to grow at a robust pace. The Monthly Index of Economic Activity (IMAE) reached 11.2 percent year-over-year in April, in line with staff's appraisal of continued growth momentum and a projected real GDP growth rate of 7.5 percent for year end-2022. This fast pace of recovery led to important gains in employment generating steep reductions in the unemployment rate, which dropped from 11.3 percent in October 2021 to 9.9 percent in April 2022.

Rising global food and energy prices are driving domestic inflation, in line with the developments in other economies. The inflation rate reached 4.2 percent year-over-year in May 2022, with 3.3 percent accumulated since January. Core inflation has remained stable at 1.1 percent. While these figures are well above recent history, they are still more moderate than Panama's regional peers. Despite this concerning surge in inflationary pressures, headline inflation is expected to hover around 4 percent by end-2022 and gradually return to its historical average of 2 percent over the medium-term.

The government maintains steadfast vaccination efforts. The country is currently experiencing an uptick in COVID-19 cases that peaked towards the end of the first quarter, with a low number of deaths and hospitalizations. The lower mortality rate has been a direct result of a vaccination program that successfully achieved 88 percent of the target population with one-dose, and 79 percent with two doses. These results have allowed a gradual relaxation of restrictions that have supported the ongoing recovery.

Fiscal Policy

Fiscal consolidation will remain broadly on track. The policy response to the pandemic have been strong and adequately targeted to protect the most vulnerable. Yet, the authorities have maintained a resolute commitment to reduce the fiscal deficit and comply with the fiscal rule. The non-financial public sector deficit fell from 10.5 percent of GDP in 2020 to 5.5 percent in 2021 and is projected to decrease to 4 percent of GDP this year, consistent with the 2022 budget approved by the National Assembly. The recent government's decision to temporarily subsidize fuel prices is not expected to derail these efforts.

Compliance with the fiscal rule will support debt sustainability. Panama's public debt-to- GDP ratio is projected to continue declining from its peak of 65.6 percent in 2020 to 49.5 percent by 2027, owing to a combination of economic recovery, higher fiscal revenues, and the authorities' commitment to the consolidation strategy. Compliance with the amended fiscal rule, in particular, will be critical to continuously generate primary balances and maintain public debt on a declining path. In addition, manageable gross financing needs and steady access to capital markets at favorable conditions will add further resilience against adverse scenarios.

Public Financial Management reforms have advanced firmly. The Ministry of Economy and Finance (MEF) is implementing a comprehensive action plan to strengthen the fiscal policy framework, improve revenue mobilization and expenditure control. The plan, supported by IMF's technical assistance, is focused on a comprehensive reform of the General Budget Law. The new legislation will upgrade the budget framework, its procedures, and practices to enhance policy implementation and fiscal transparency.

Financial Sector

The banking system remains stable, well capitalized and liquid. Private sector credit growth continues to accelerate as the economy recovers and has reached an annual growth rate of 3.2 percent year-over-year in March 2022. The regulatory capital adequacy ratio stood at 15.3 percent, well above the minimum threshold of 8 percent. Furthermore, banks have maintained liquidity buffers significantly higher than the legal requirement, almost doubling the regulatory minimum of 30 percent. State owned banks have met PLL's indicative targets in this regard.

The authorities successfully phased out the forbearance measures implemented during the pandemic. The loan restructuring process between banks and affected borrowers ended in September 2021 and was completed successfully without further delays. This is reflected in the significant reduction in the share of modified loans to total loans from its peak of 47.6 percent in July 2020 to 11.9 percent by the end of March 2022. Regarding asset quality, NPLs have remained stable at 2.5 percent at end-March 2022, with a high loan-loss provision-to-NPL after the implementation of stricter provisioning requirements by the Superintendency of Banks.

Panama's engagement in the Financial Sector Assessment Program (FSAP) is underway. A joint IMF-World Bank mission met with the Panamanian authorities on June 29 to open the dialogue on the scope of work, discuss logistical modalities, and assess a tentative schedule to complete the FSAP during the first semester of 2023. The report will focus on three main pillars: 1) risk analysis/stress testing, interconnectedness, growth at risk/capital flows at risk; 2) banking supervision around full Basel core principles assessment, macroprudential oversight, AML/CFT; and 3) safety net & crisis management. The assessment is expected to feed into the next year's Article IV Consultation.

Program Performance and Reform Implementation

Indicative targets regarding government deposit coverage and public banks liquidity were met with comfortable margins. The national government deposits at the National Bank of Panama stood at US$4 billion at end-March 2022, well above the US$1.0 billion target supported by global bond issuances in 2020 and 2021 to face the persistent uncertainty and volatility in international financial markets. Similarly, the ratio of liquid assets of public banks to total net deposits stood at 82.2 percent at end-March 2022, well above the 30 percent target, strengthening official banks' reserves buffers.

Panama continues to make significant progress towards exiting FATF's grey list. The authorities remain firmly committed to working with GAFILAT and FATF to strengthen the effectiveness of its AML/CFT framework, by improving the monitoring of the corporate sector and focusing on money laundering investigations in relation to high-risk areas, and the seizing and confiscation of the proceeds of crime. Eleven items out of the 15 recommendations included in the action plan agreed with FATF have experienced significant progress, while the remaining four have shown encouraging advances. These material steps have been duly informed to staff during their weekly meetings with the authorities over the past few months.

In accordance with the prior action agreed with the mission team, the Superintendency of Non-Financial Entities have effectively surpassed the target of 18,000 companies added to the ultimate beneficial ownership registry. The authorities continue to move forward in the process of identification and compilation of information of ultimate beneficial ownership. As of July 5, a total of 20,545 companies have uploaded their information in the Beneficial Ownership Registry, while overcoming significant technological difficulties. Furthermore, the Superintendency continues to raise awareness and train compliance officers, law firms, chambers of commerce, and business associations on this critical procedure to support the fight against money laundering. Between 2019 and 2022 *in situ* oversight has doubled with respect to 2016-2020, and *extra situ* oversight has increased by almost ten-fold, with most of that additional monitoring focused in the legal sector. In 2022, the Superintendency is expected to double the number of *extra situ* scheduled oversight.

The sanctioning process has also been strengthened. The authorities tallied 35 sanctions by oversight and regulatory bodies, and started 15 more investigations, as the institutional pipeline gradually moves forward as agreed in the implementation roadmap. More than half of Panamanian corporations have been suspended, as they failed to showcase the required information about their legal representation or keep up-to-date payments to maintain their status. This is a major step towards increasing business transparency, as most shell corporations are being de-listed as hollow structures. Moreover, the authorities continue to increase their legal and investigative capacity to prosecute money laundering activities unrelated to drug trafficking. These investigations have increased more than four times since 2019.

Data adequacy efforts are on track. Both structural benchmarks on publishing the data template on International Reserves and Foreign Currency Liquidity (September 2021) and resume the quarterly publication of the fiscal operations of the Central Government and the General Government structural benchmark were timely met. In addition, the Panamanian authorities have intensified the implementation of the action plan to ensure the subscription to SDDS standards by end-2022. The focus remains on minimizing shortcomings related to coverage, periodicity, and timeliness of data series, especially with respect to labor market and producer price index data. In particular, the authorities are working on reducing the lag in the dissemination of the IMAE. The completion of this process will significantly increase fiscal transparency and buttress data integrity, strengthening the country's investment grade status.

Final Remarks

Panama remains fully committed to the PLL's objectives and to exit FATF's gray list. They have reaffirmed their commitment and full ownership of the program by meeting all quantitative and indicative targets and structural benchmarks. By the end of the arrangement, gross financing needs are projected to decline, bolstering the downward trend in public debt, supported by a more efficient and transparent public financial management framework. In addition, the authorities will continue to take actions to fully implement the remaining measures in the FATF action plan to ensure effective sanctions in response to AML/CFT violations, secure up-to-date beneficial ownership information, and further improve its ability to investigate and prosecute money laundering cases involving foreign tax crimes.

The authorities reaffirm their intention to treat the arrangement as precautionary. The PLL has provided Panama with useful insurance against extreme risks related to the heightened uncertainty generated by the pandemic and exacerbated by the spillover effects from the war in Ukraine. That said, Panama's sound policies and strong track record, reflected in the country's long standing investment grade rating, continue to allow ample access to international financial markets under favorable conditions and the economy is projected to strengthen and grow this year beyond pre-pandemic GDP levels.