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June 10, 2021

**Statement by Mr. Massourakis and Ms. Cerami on Panama
(Preliminary)
Executive Board Meeting
June 14, 2021**

We thank staff for a comprehensive report and Mr. Bevilaqua, Mr. Fuentes, and Mr. Maciá for their helpful Buff statement. We broadly share staff's appraisal and policy recommendations. However, we believe that, in the presence of high vulnerabilities due to climate risks and of persistent social inequalities, a stronger emphasis on promoting a green and more inclusive recovery would had been warranted. We offer a few additional remarks.

- **The resolute and decisive policy response, supported by the Fund's emergency and precautionary lending, has started bearing fruit.** Panama is among the countries hit hardest by the pandemic. But the authorities' swift action to strengthen the health system including vaccination modalities, as well as to mitigate the adverse economic impact, have drastically reduced the spread of the virus and supported the economic recovery. It is reassuring that staff project a strong and broad-based rebound already this year. Moreover, staff's insightful analyses provide strong arguments for several tax and spending measures aimed at reducing income inequalities, improving employment opportunities, and increasing resilience to natural disasters.
- **Exiting the Financial Action Task Force (FATF) grey list and the EU blacklist of non-cooperative jurisdictions for tax purposes remains a key priority.** Staff rightly identify failure or delays in fulfilling the FATF action plan, as well as improving the AML/CFT and tax transparency frameworks, as the main downside risks to an otherwise favorable outlook. For this reason, we strongly encourage the authorities to swiftly address the remaining deficiencies, leveraging on the technical assistance (TA) provided by the European Union and the World Bank, and to request further TA if needed. We also see merits in staff's recommendation to gradually

move towards a system of worldwide taxation of passive and some sources of active incomes, which would allow taxing income generated abroad.

- **The fiscal framework needs further strengthening.** The amended Social and Fiscal Responsibility Law has rightly increased the flexibility of the fiscal framework while ensuring debt sustainability in the long run. We welcome the authorities' commitment to continue strengthening the fiscal framework by enhancing public financial management and budgetary procedures.
- **The banking sector has been resilient, helped by advanced regulation and oversight.** The necessary credit support measures have been rightly accompanied by ad-hoc provisioning measures to preserve the strength of the financial sector. However, asset quality should continue to be closely monitored until the impact of moratoria can be fully assessed and addressed. Furthermore, we support staff's recommendation to complete the implementation of the Basel III capital and liquidity requirements and to further develop the macroprudential framework.