

BUFF/ED/21/71
Revised: 6/11/21

June 9, 2021

**Statement by Mr. Bevilaqua, Mr. Fuentes, and Mr. Maciá on Panama
Executive Board Meeting 21/60
June 14, 2021**

1. On behalf of our Panamanian authorities, we thank Executive Directors and Management for their continuing support to Panama. We also thank Mr. Santos and his team for their open dialogue during the Article IV consultation and for their informative report on Panama's macroeconomic outlook and policies. The authorities reiterate their utmost appreciation for the Fund's continued technical assistance and valuable policy recommendations.
2. **The pandemic has severely impacted the Panamanian economy.** Real GDP contracted by 17.9 percent in 2020 driven by pandemic-induced disruptions in tourism, air transportation, construction, and commerce, with unemployment reaching 18.5 percent in 2020, compared to 7.1 percent in 2019. Nevertheless, the authorities' swift health response was critical to mitigate the socioeconomic impact of the pandemic. These efforts included the creation of *Panama Solidario* to assist unemployed workers and low-income families, the implementation of tax moratoriums, and an ample loan forbearance program. The authorities continue to provide support to vulnerable households and small businesses, while implementing an aggressive vaccination campaign.

Recent Developments and Economic Outlook

3. **Expectations point to a strong rebound in 2021.** A major lockdown in response to a second wave of COVID-19 cases during the holiday season interrupted the recovery momentum in early 2021, with IMAE (the monthly indicator of economic activity) falling 10.1 percent in the first quarter, compared to the first quarter of 2020. However, economic activity has progressively recovered as the government resumed its infrastructure investment plan (headlined by the Metro Line 3 mega-project), in parallel with multiple private sector initiatives. Furthermore, as the commercial and service

sectors steadily reopen, employment continues to bounce back with about half of the 284 thousand suspended contracts reactivated by end-March. Against this background, the authorities expect real GDP growth to reach 9 percent in 2021.

4. **The progress in the vaccination rollout should provide a boost to the recovery.** Vaccination started in late January with the arrival of the first Pfizer doses. The authorities have reached supply agreements for 9.3 million doses from Pfizer, AstraZeneca and COVAX for full two-dose coverage of the entire population. Through late May, 17.9 percent of population received at least one dose, while new cases and deaths remained subdued. Fulfilling the current vaccine delivery schedule will be critical to reach herd immunity before the end of the year target, providing a definitive boost to the ongoing economic recovery.

Fiscal Policy and Public Financial Management

5. **The fiscal position deteriorated in 2020 consistent with the recession and the emergency support to the economy but is expected to improve in 2021.** The tax moratoriums and the unprecedented expenditure expansion in response to the pandemic widened the fiscal deficit to 10.1 percent of GDP in 2020 from 3.6 percent of GDP in 2019, pushing the debt-to-GDP ratio to 64 percent at year-end. However, Panama has continued to have ample access to capital markets at favorable conditions, issuing a new US\$2.45 billion global bond in mid-January. As the economy responds to the stimulus, the vaccination rollout gathers steam and the policy support becomes more targeted, fiscal performance is projected to improve and close 2021 with a 7.5 percent of GDP budget deficit in line with the Social and Fiscal Responsibility Law (SFRL) ceiling.
6. **Looking ahead, the authorities are fully committed to fiscal consolidation consistent with the strict implementation of the SFRL.** The SFRL targets a declining fiscal deficit of 7.5 percent of GDP in 2021, 4.0 percent in 2022, 2.0 percent in 2023-24 and 1.5 percent in 2025, consistent with a steady decline in the debt-to-GDP ratio. As the global economy recovers and international trade accelerates, fiscal revenue should be supported by the *Cobre Panamá* mine, the Panama Canal and the introduction of revenue-enhancing measures aimed at improving tax collection efficiency, broadening the tax base, and streamlining tax exemptions.
7. **The government is also committed to strengthening public financial management (PFM) by enhancing fiscal transparency and efficiency.** IMF technical assistance on budget management and procurement has become instrumental to this end. The authorities are currently improving the multi-year budget formulation framework, enhancing expenditures controls, and increasing expenditure efficiency to improve social

outcomes. Technical assistance is also supporting the work on amending the Organic Budget Law and upgrading internal procedures and controls to avoid future accumulation of arrears.

Financial Sector Performance and Macprudential Technical Assistance

8. **The financial sector continues to display resilience, with ample liquidity and strong capitalization.** Liquidity indicators stayed above 60 percent of total deposits throughout 2020 and the first quarter of 2021, while the capital adequacy ratio (CAR) reached 15.8 percent at end-March 2021, nearly twice the regulatory benchmark. The credit portfolio that benefitted from the loan moratorium decreased from its US\$28.1 billion peak in August 2020 to US\$19.6 billion in late April 2021. Provisioning for modified loans was established at 3 percent of gross balances to mitigate the risk of an abrupt increase in nonperforming loans (NPLs). NPLs remained stable throughout 2020 and stood at 1.9 percent by end-March 2021. In addition, the US\$1.0 billion fund for economic stimulus (FES), owned by the MEF and operated by the *Banco Nacional de Panama* (BNP), was established as an instrument to provide liquidity for the banking system and support the recovery.

9. **The Superintendency of Bank (SBP) continues to strengthen supervision.** SBP has made progress on draft legislation to bolster bank resolution, update its effectiveness, and increase depositors' protection. In addition, SBP officials have indicated the need of further MCM TA to boost the macroprudential policy framework, systemic risks monitoring, stress-tests, digital banking, and cybersecurity. Moreover, the authorities formally requested in April 2021 the inclusion of Panama in the financial sector assessment program (FSAP). The last FSAP was conducted ten years ago in 2011 and was instrumental to bolster regulation and consolidated supervision. The authorities look forward to Management's support to move ahead expeditiously with this request.

AML/CFT Regulations, Financial Integrity, and Data Adequacy

10. **Bolstering AML/CFT capacity remains a top priority of the government.** The authorities presented a progress report on AML/CFT issues in early January 2021 as the initial step for FATF's plenary assessment in late February. The plenary assessment concluded that Panama had made progress relative to the Action Plan, yet further actions were still needed. In this regard, the Ministry of Economy and Finance (MEF) hired top consultants to upgrade its response capacity to implement FATF's Action Plan. Building criminal investigation capability and improving cooperation on foreign tax information exchange have been given priority. The authorities also continue to strengthen the enforcement of final-beneficial owner identification and risk-based supervision and

regulations of Denominated Non-Financial Businesses and Professions (DNFBP), targeting risks of money laundering in the corporate sector.

11. **Technical assistance remains paramount to further progress in AML/CFT issues.** Technical assistance to address immediate outcome (IO) issues will be provided by the European Union and the World Bank. In addition, the authorities and staff continue to work together to enhance Panama's capabilities to implement FATF's recommendations on AML/CFT violations, sanctions, and money laundering investigations relative to foreign tax crimes. That said, additional technical assistance is needed to tackle the action plan initiatives and strengthen the AML/CFT supervision framework, investigative capacity, judicial actions, and enforcement of penalties as a deterrent to violations. Delivering on these efforts should accelerate the process of exiting the FATF list.

12. **The authorities remain focused on delivering on their commitment to subscribe to the SDDS by 2022 to enhance the coverage, periodicity, and timeliness of data reporting.** The National Statistics Institute (INEC) is following a work program based on the 2020 ROSC's guidelines and their 2020-2024 National Statistics Plan towards the modernization and upgrade of the institution's technical capacity. This strengthening process includes increased budget and human resources, training, and technological upgrade. Additionally, INEC has made initial progress in developing a preliminary template for international reserves following STA's guidelines and requirements in the SDDS system. Fund's technical assistance and external consultants will continue to support these efforts.