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June 10, 2021

**Statement by Mr. Guerra and Mr. Cartagena Guardado on Panama
(Preliminary)
Executive Board Meeting
June 14, 2021**

We thank staff for the comprehensive report and Mr. Bevilaqua, Mr. Fuentes, and Mr. Maciá for their insightful Buff statement.

The solid track record of sound macroeconomic policies prior to the crisis allowed Panama to enter the COVID-19 crisis with a strong stance. Nevertheless, we note with concern that the cumulative number of cases and fatalities per 100 thousand inhabitants has been relatively high, while the sharp economic contraction hindered revenues, boosted a large fiscal deficit, and increased debt during this past year. This exogenous shock exacerbated outstanding structural issues that required a policy agenda to build additional resilience in the economy. Regarding short-term priorities, we underscore the steps that the authorities are taking to ensure a faster vaccination process given the high human-contact service economy.

We welcome authorities' commitment to fiscal discipline. The authorities' efforts to bring down the deficit and debt trajectory in the following years through strengthening revenue mobilization, expenditure prioritization, and complying gradually with the fiscal rule are right steps to ensure fiscal resilience. We note that Panama is below the regional average in the revenue-to-GDP ratio, providing space for revenue mobilization that can help to address some of the structural challenges and social expenditures priorities. We note the increasing sustainability risks that the pension system is facing and *will welcome further staff comments on policy measures that authorities may be considering to address these challenges.*

We highlight Panama's banking system resilience during the crisis, although potential downside risks remain in asset quality due to the temporary credit measures put in place to

protect business and households during the pandemic. *Can staff provide further comments on the exit strategy from the debt relief measures.* We concur with staff that further efforts to ensure an effective supervision of the financial system will be instrumental, especially considering the importance of Panama as a regional banking center.

We welcome the authorities' commitment to prioritize and continue implementing its action plan to exit the FATF gray list. Panama's inclusion on the FATF gray list poses risks to the financial system. In this regard, we welcome that the authorities are building criminal investigation capability and improving cooperation on foreign tax information exchange. As stated in the Buff, additional technical assistance is needed to tackle the action plan initiatives and strengthen the AML/CFT supervision framework in a timely manner. The IMF should support these efforts.

We commend authorities for the efforts to strengthen data quality and adequacy. We welcome that the authorities are taking ownership of the ROSC roadmap to strengthen data adequacy and to meet SDDS requirements by 2022.

With these remarks, we wish the Panamanian authorities success in their policy objectives.