

**EXECUTIVE  
BOARD  
MEETING**

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July 15, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Panama—First Review Under the Arrangement Under the Precautionary and Liquidity Line**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Wednesday, July 28, 2021</b>
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Publication:	Yes*
Questions:	Mr. Santos, WHD (ext. 36629) Mr. Chow, WHD (ext. 36638) Ms. Rousset, WHD (ext. 34655) Mr. Wezel, MCM (ext. 39897) Mr. Soler, FAD (ext. 38276) Mr. Rodriguez Delgado, STA (ext. 39689) Ms. Antoun de Almeida, SPR (ext. 30575)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—European Investment Bank, Inter-American Development Bank, World Trade Organization

**\*The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the authorities have indicated that they consent to the Fund's publication of this paper.**





# PANAMA

July 15, 2021

## FIRST REVIEW UNDER THE ARRANGEMENT UNDER THE PRECAUTIONARY AND LIQUIDITY LINE

### EXECUTIVE SUMMARY

**Context.** Macroeconomic vulnerabilities have declined since the peak of the COVID-19 pandemic in 2020. The economy is expected to rebound swiftly in 2021 as activities return to normality and the population is increasingly vaccinated. External imbalances are contained. The fiscal position is gradually consolidated as the authorities remain committed to the revised fiscal rule, which will ensure a declining path for the NFPS debt. The outlook remains subject to elevated risks, including uncertainties arising from possible more contagious variants of the COVID-19 virus. Domestic risks include setbacks in implementing the FATF action plan to exit the grey list, delays in fiscal consolidation, and a prolonged pandemic that could exacerbate socioeconomic hardship and derail economic policies and the recovery.

**PLL review.** Staff recommends completion of the first PLL review as: (i) all conditionality for the first review under the PLL has been observed; (ii) Panama continues to meet the PLL qualification criteria; (iii) the Executive Board gave a positive assessment of Panama's policies in the context of the 2021 Article IV Consultation; and (iv) the authorities remain committed to implement the strong policies under the PLL arrangement:

- **Conditionality.** The end-March 2021 quantitative indicative targets (IT) on banking buffers and government deposits were met. The end-May 2021 structural benchmark on the creation of the National Statistical Council was also observed.
- **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).
- **Policies.** Panama's economic fundamentals and policy frameworks are sound, the country is implementing (and has a track record of implementing) sound policies and remains committed to maintaining such policies in the future.

Approved By  
**Nigel A. Chalk (WHD)**  
**and Martin Čihák (SPR)**

Discussions were held virtually during April 12–23, 2021, and June 7–30, 2021. The mission comprised Alejandro Santos (head), Julian Chow, Marina Rousset, Paola Aliperti (all WHD), Alberto Soler (FAD), Luiza Antoun de Almeida (SPR), Torsten Wezel (MCM), José Daniel Rodríguez-Delgado (STA), and 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, General Manager of the National Bank of Panama Javier Carrizo, and other senior officials and private sector representatives. Interpretation services were provided by Hilda Tejada, Hady Gonzalez and Joyce Denton.

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## Acronyms

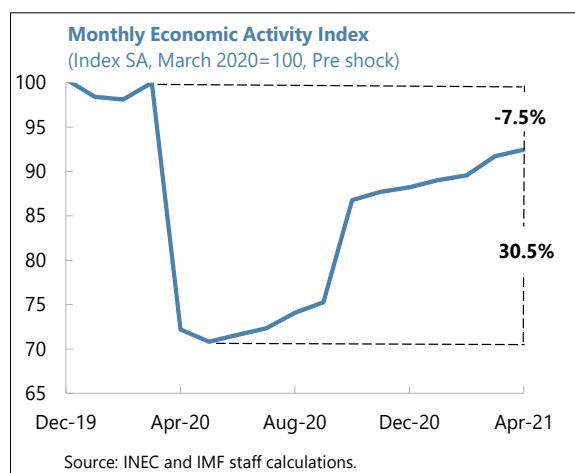
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
BNP	Banco Nacional de Panamá (National Bank of Panama)
CCSBSO	Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions
CFZ	Colon Free Zone
CGRC	Crisis Management and Resolution Committee
COVID-19	Coronavirus Disease 2019
DNFBP	Designated Non-Financial Business and Professions
DSA	Debt Sustainability Analysis
DSBB	Dissemination Standards Bulletin Board
EESI	External Economic Stress Index
e-GDDS	Enhanced General Data Dissemination System
FAP	Sovereign Wealth Fund
FATF	Financial Action Task Force
FES	Fund for Economic Stimulus
FDI	Foreign Direct Investment
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
IMAE	Index of Economic Activity
INEC	National Institute of Statistics and Census
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

## RECENT DEVELOPMENTS

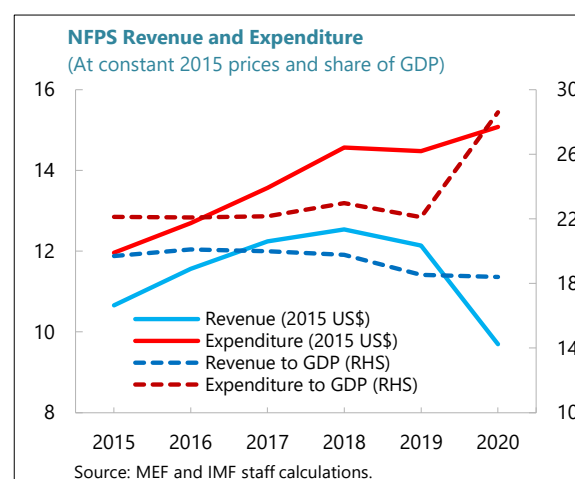
**1. The IMF Executive Board approved Panama's request for a two-year Precautionary and Liquidity Line (PLL) on January 19, 2021.** Stringent measures to address the COVID-19 pandemic, coupled with the global recession, precipitated a sharp contraction in Panama's economy in 2020. Given the significant downside risks to the economy, the authorities requested a PLL for 500 percent of quota (SDR 1.884 billion or about US\$2.7 billion) which serves as an insurance against extreme external shocks. In addition to the PLL, Panama also 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 during the peak of the pandemic.<sup>1</sup>

**2. Following a sharp contraction in 2020, the economy is recovering strongly in 2021.**

Real GDP contracted by an unprecedented 17.9 percent in 2020 and the unemployment rate spiked to 18.5 percent in September 2020 as the economy was severely affected by the COVID-19 pandemic and workers were furloughed. The index of economic activity (IMAE) (SA) increased at a rate of 28.1 percent (y/y) in April 2021, the level of activity in April 2021 was about 5½ percent higher than in the last quarter of 2020 and over 30 percent higher than the trough in May 2020. As the economy rebounds, there are some price pressures, but they appear to be related to supply disruptions. Consumer price inflation increased to 1.9 percent (y/y) in May 2021, driven by higher oil, transportation, and food prices, following subzero headline inflation for most of 2020.



**3. The fiscal position deteriorated markedly in 2020 but is improving in 2021 in line with the amended fiscal rule.** The GDP contraction resulted in a sharp cyclical loss of revenues in nominal terms. Meanwhile, total expenditure was in line with the 2020 budget in nominal terms albeit its composition was altered to attend to the COVID-19 emergency. In particular, unexpected COVID-19 related spending (about 3 percent of GDP) was broadly offset by cuts in capital expenditure (about

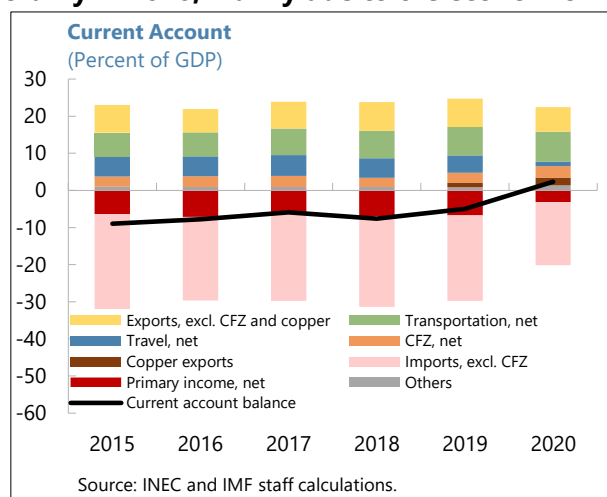


<sup>1</sup> The RFI resources have been earmarked to the Fund for Economic Stimulus (FES) to support bank liquidity (similar to a dual lender of last resort and credit facility). As of end-June, 2021 no bank has used the liquidity facility.

2 percent of GDP) and other current spending (about 1 percent of GDP). The nonfinancial public sector fiscal deficit swelled to 10 percent of GDP in 2020, essentially reflecting a large denominator effect on the expenditure side, but remained in line with the amended fiscal rule which set a target between 9 and 10½ percent of GDP for 2020. NFPS debt rose from 42¼ percent of GDP in 2019 to 66⅓ percent of GDP in 2020. About one-half of this increase reflects the higher fiscal deficit, while the other half reflects the strong buildup of public sector deposits and the denominator effect. Latest data indicates that the NFPS deficit deteriorated in Q1-2021 amounted to 1.7 percent of GDP, which is broadly in line with the government’s objective of achieving a fiscal deficit of 7½ percent of GDP in 2021.

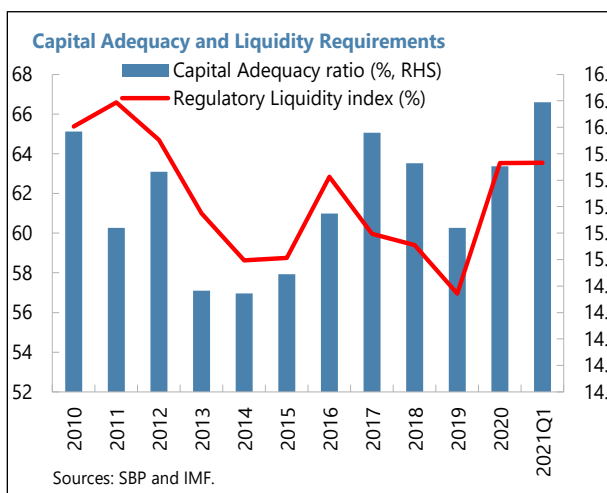
**4. The external position improved temporarily in 2020, mainly due to the economic downturn.**

The current account balance switched to a surplus of 2¼ percent of GDP in 2020 (from a deficit of 5 percent of GDP in 2019) on the back of a sharp contraction in imports, lower oil prices, as well as increased copper exports and resilient Canal and Colon Free Zone (CFZ) revenues. The current account surplus and other capital inflows led to a buildup of external buffers. The external position is assessed in the recent Article IV to be moderately stronger than the level implied by fundamentals and desirable policy settings.



**5. The banking system remained resilient and well-regulated.** Despite the challenging economic outlook and notwithstanding the extraordinary measures which allowed loan modification

in the wake of the pandemic, the regulatory capital adequacy ratio remained high, at 16.2 percent as of end-March, 2021 (compared to 15.2 percent as of end-2019), against a minimum requirement of 8 percent. Liquidity remained high with short-term assets covering 64 percent of short-term deposits as of end-May 2021, twice the regulatory minimum of 30 percent and around 10 percentage points higher than before the pandemic. The delinquency rate of domestic loans stood at 4.5 percent at end-March 2021, compared to 4.4 percent at end-2019, while provisioning rose to 156 percent of NPL in 2020 from 102 percent of NPL in 2019.



**6. Panama remains on the Financial Action Task Force (FATF) grey list.** While the FATF acknowledged the actions taken by the authorities in improving the AML/CFT regime in the recent June 2021 plenary, progress was not sufficient to remove Panama from the list of countries with strategic deficiencies. The FATF called Panama to take urgent action to fully address remaining measures in its action plan as all timelines have already expired. The next FATF plenary is scheduled for October 2021.<sup>2</sup>

## PERFORMANCE UNDER THE PLL ARRANGEMENT

**7. Indicative targets.** All indicative targets for this review were met with large margins.<sup>3</sup>

- **Government deposits coverage.** The end-March 2021 target for the national government liquidity coverage was met. The national government deposits at the National Bank of Panama (BNP) stood at US\$4,228.6 million at end-March 2021, well above the minimum indicative target of US\$1,000 million.
- **Public banks liquidity buffers.** The end-March 2021 target for the official (state-owned) banks' liquidity was 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 84.1 percent at end-March 2021, well above the minimum indicative target of 30 percent.

**8. Structural benchmark.** The benchmark for end-May 2021 was also observed. The General Comptroller's Office published in the Official Gazette, on May 27, 2021, resolution 205-2021-INEC of February 10, 2021, revamping the National Statistical Council in line with ROSC recommendations.

## OUTLOOK AND RISKS

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

- **Growth.** Economic activity is projected to recover in 2021, real GDP is expected to grow by 12 percent, boosted by the COVID-19 vaccination and supported by strong tailwinds from the world economy, full-scale copper production and a recovery in private investment. Growth is expected to stabilize over the medium term at its potential annual rate of 5 percent.

<sup>2</sup> 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.

<sup>3</sup> No modification to the indicative targets is proposed for the following reviews. The large increases in government deposits is due to large global bond issuances (i.e., US\$5 billion in 2020 and US\$ 2½ 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 declined close to (and even below) US\$1 billion (i.e., during the Global Financial Crisis). 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.

- **Inflation.** Headline inflation is expected to pick up to 2 percent (y/y) by end-2021 amid accelerating economic activity and remain at that rate over the medium term.
- **Fiscal.** The fiscal balance is expected to improve significantly in 2021, in line with a reduction of the NFPS deficit to about 7½ percent of GDP (US\$4½ billion), adhering to the Social and Fiscal Responsibility Law (SFRL). The reduction in the deficit will be driven by a rebound in revenues estimated at about 1 percent of GDP, as well as a moderation of spending totalling about 1¾ percent of GDP. The composition of expenditures was amended in early 2021 to reprioritize spending by over 2 percent of GDP towards the purchase of vaccines and social programs while reducing other spending. In the medium term, the amended fiscal rule enshrines a gradual reduction in the deficit up to 1½ percent of GDP by 2025. This consolidation is expected to be supported by a combination of a cyclical recovery in revenues, the withdrawal of COVID-19 measures, an improvement in revenue administration, and a moderation of expenditure growth.
- **External.** A temporary deterioration in the current account deficit to about 3½ percent of GDP is expected in 2021, driven by higher pent-up demand for imported durable goods against the backdrop of a rebound in the economy. The external position is projected to be underpinned by stronger export receipts in the medium term, reducing the current account deficit to 2½ percent of GDP by 2026.

**10. The balance of risks remains tilted to the downside.** The economic outlook continues to be subjected to an unusual degree of uncertainty arising from the impact of the pandemic on the global economy and Panama, including possible more contagious mutations of the COVID-19 virus and the effectiveness of vaccines to counter such mutations. Specifically:

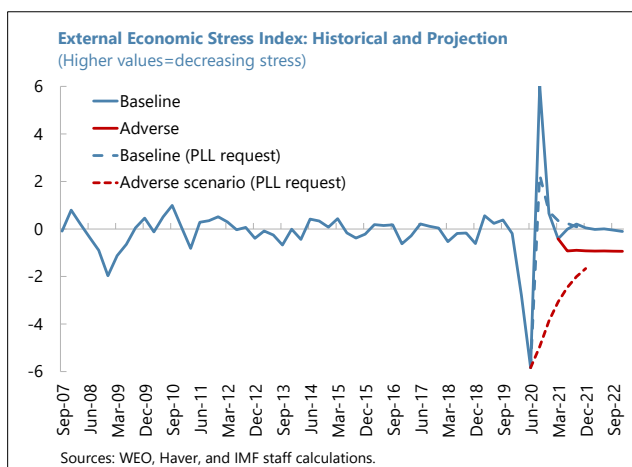
- **New wave of the pandemic.** While the expectation is for increasing vaccination, and a rapid recovery, the situation could become less positive, triggering a new wave of the pandemic.
- **Escalation of external risks.** A worsening of the COVID-19 pandemic could lead to disruption of global trade and capital flows.
- **Financial integrity risks.** A lack of meaningful progress in improving the AML/CFT framework which could delay the removal of Panama from the FATF grey list, as well as 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.
- **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.

### Box 1. External Economic Stress Index

- 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	Channels	External Proxy Variables	Weights
External demand	Net exports	World GDP Growth	0.31
	FDI	US GDP growth	0.18
Global financial conditions	Portfolio investment	Change in 10-year Treasury yield	0.11
	Other investment	VIX	0.40

- Scenarios.** The baseline corresponds to the April 2021 WEO projections for US and world GDP growth, while the VIX is assumed to remain around its current level and the 10-year US Treasury yield is assumed to increase gradually. The adverse scenario reflects a slower recovery of the US and global economy, combined with persistent financial market volatility.
- Overall assessment.** The EESI experienced a strong decline in the second quarter of 2020 due to the effects of the COVID crisis on the US 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, given stronger-than-expected global growth in the second half of 2020, a reduction in the uncertainty surrounding vaccine development and deployment, and stronger prospects for a robust US recovery. Due to a strong US recovery and low market volatility, external pressures faced by Panama 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.



## REVIEW OF PLL QUALIFICATION

**11. Staff's assessment is that Panama continues to qualify for a PLL arrangement.** Since the approval of the PLL in January 2021, the economic indicators have improved, and the fundamentals remain strong. In line with the generally positive assessment of Panama's policies by the Executive Board during the 2021 Article IV consultation discussion, staff's assessment is that Panama continues to meet the PLL qualification criteria.

### A. General Assessment

**12. Panama's economic fundamentals and institutional policy frameworks remain sound.** The country continues to implement, and has a track record of implementing, sound policies. The authorities remain committed to doing so in the future.

- **Macroeconomic outcomes.** The economic downturn that Panama faced in 2020 was an unprecedented shock stemming from the global economic recession and lockdown which affected trade and domestic economic activities due to the COVID-19 pandemic. Prior to the pandemic, Panama experienced an unprecedented economic expansion with average annual growth of 6 percent in the last 25 years, the longest and fastest in Latin America (and one of the longest and fastest in the world), supported by an investment boom, which included expanding the Panama Canal, erecting some of the tallest buildings in Latin America, and constructing one of the largest copper mines in the world. As the pandemic recedes with the population becoming increasingly immune to the virus through vaccination, growth is expected to rebound to 12 percent in 2021 as the domestic economy regains normality and copper mining returns to full-scale production. The economic growth is expected to continue over the medium term, stabilizing at its potential annual rate of 5 percent, underpinned by private investment, copper exports, Canal traffic flow and revenues, and tourism.
- **Policy performance.** During the Executive Board discussion of the 2021 Article IV consultation in June, Directors gave a relatively positive assessment of the Panamanian economy, welcomed the authorities' continued strong commitment to sound macroeconomic and financial sector policies, and encouraged them to sustain their reform efforts to further reduce vulnerabilities and promote policies to bolster job creation and more inclusive growth.
- **Sound policies.** The fiscal balance is expected to improve significantly in 2021 as the budget aims for a reduction of the NFPS deficit to about 7½ percent of GDP (US\$4½ billion) in line with the SFRL. 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 is granted for the temporary moratorium on servicing bank loans which ended on June 30, 2021. While some progress has been made in addressing the action items on the FATF action plan most recent FATF plenary in June called Panama to take urgent action to fully address its action plan.

## B. Assessment of Specific Criteria

**13. Panama continues to meet the qualification criteria for a PLL arrangement.** Staff's assessment on PLL eligibility remains the same as in January 2021. In particular, staff assesses Panama to perform strongly in 3 out of the 5 qualification areas (external, fiscal and monetary), and not to substantially underperform in the other 2 areas (financial and data). In the 2021 Article IV Consultation, the Executive Board supported the generally positive assessment of Panama's policies and frameworks.

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

- **Criterion 1. Sustainable external position.** The external balance assessment conducted during the 2021 Article IV is in line with the [Precautionary And Liquidity Line Operational Guidance Note \(2018\)](#).<sup>4</sup> In particular, the external position is assessed to be moderately stronger than the level implied by fundamentals and desirable policy settings. After a deterioration in 2021 due to a pick-up in imports, the current account is expected to improve steadily over the medium term, underpinned by a rebound in Canal traffic, tourism, and re-exports from the free zone as the world economy recovers, as well as higher exports from the new copper mine.
- **Criterion 2. Capital account position dominated by private flows.** The bulk of Panama's external debt is owed to private creditors, with public debt averaging only 22 percent of total debt over the past 3 years. Private capital flows constitute the largest share of the capital account, with FDI accounting for 55 percent of the total during 2018–20. Deposits and other external liabilities in the banking sector alone account for about 50 percent of total external liabilities, reflecting Panama's position as the region's financial hub and the dominance of its large (private) financial sector. The net international investment position (NIIP) is projected to improve over the medium term—due to higher net exports (particularly from the free trade zone), Canal receipts, and tourism, as well as higher exports from the new copper mine—premised on a strong recovery in the medium term post-COVID-19.
- **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

<sup>4</sup> The core indicator requires the member's external position to have been assessed, in the most recent Board document (Article IV or ESR), as "broadly consistent", "moderately stronger (weaker)", "stronger", or "substantially stronger" than implied by fundamentals and desirable policies.

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 last 5 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 160 bps as of June 1, 2021, one of the lowest in Latin America, and significantly lower than the average in emerging markets (305 bps) and the region (366 bps).

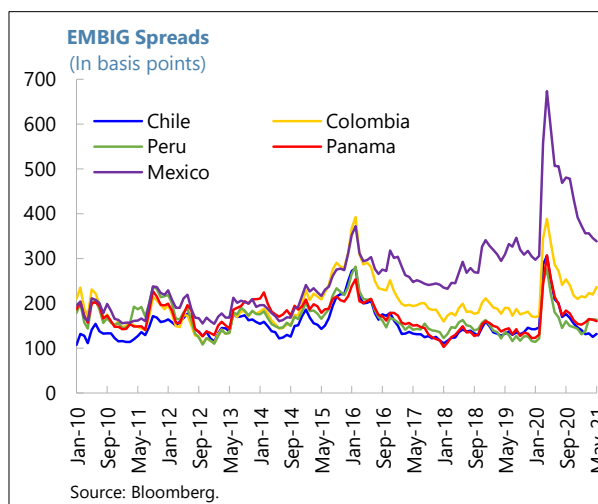
- **Criterion 4. A comfortable reserve position.**

Panama is a fully dollarized economy since inception and does not have its own currency or central bank.<sup>5</sup> As fiscal and banking sector liquidity needs drive the need for foreign currency reserves, and 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, namely 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.<sup>6</sup> The average coverage over the last

Date	Amount (US\$ bn)	Yield (%)	Spread <sup>1/</sup> (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

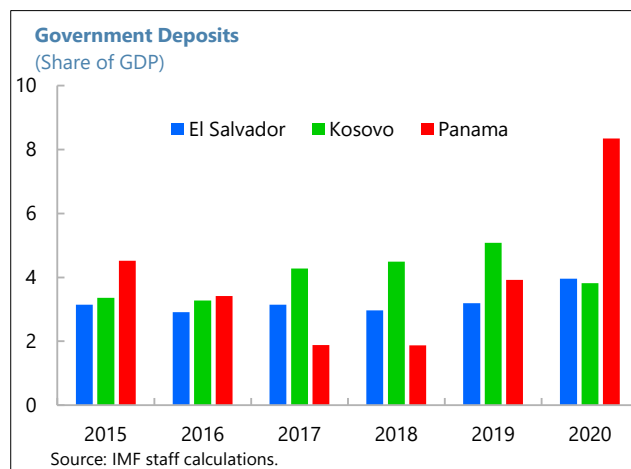
Source: Panamanian authorities.  
1/ Computed as spread against relevant U.S. treasury yields.



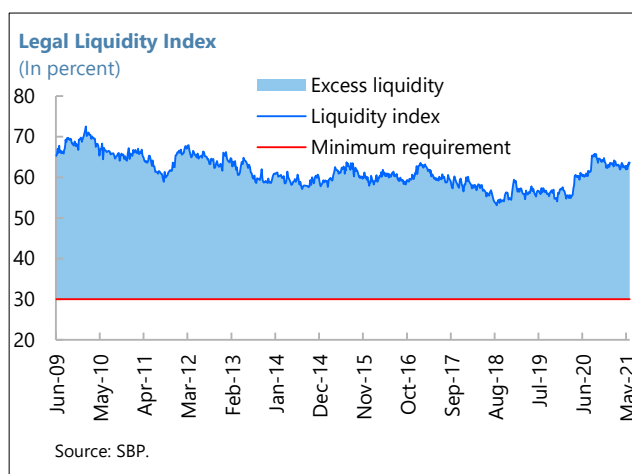
<sup>5</sup> While the official currency of Panama is the Balboa, it is mostly a unit of account tied to the U.S. dollar at a 1 to 1 parity. In practice all prices are quoted in U.S. dollars and U.S. dollar bills circulate freely. Balboas exist only in coin form as it is too costly to transport coins from the U.S.

<sup>6</sup> 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.

decade (2010–20) 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 are high, covering a large proportion of deposits since the introduction of the statutory liquidity requirement in 2009.<sup>7</sup> As of end-May 2021, this ratio stood at 64 percent, more than double the minimum statutory requirement of 30 percent. In addition, the short-term assets cover close to 100 percent of banks’ short-term external liabilities and the coverage is expected to increase over the medium term, reinforcing the high level of liquidity buffer in the banking sector as a result of stringent legal requirements, strong regulatory oversight, and conservative banking practices.



		Reserves Adequacy Metrics										
Metric	Benchmark coverage	NIR coverage										
		2016	2017	2018	2019	2020	2021 (f)	2022 (f)	2023 (f)	2024 (f)	2025 (f)	2026 (f)
Central Government liquidity coverage <sup>1/</sup>	1 month	2.4	1.3	1.3	2.8	4.5	2.0	1.6	1.5	1.5	1.5	1.4
Banks’ statutory liquidity buffers <sup>2/</sup>	30%	62.8	60.0	59.4	57.0	63.5	59.4	58.7	58.0	57.3	56.7	56.1
Short-term debt coverage <sup>3/</sup>		70.1	75.4	73.4	79.2	108.3	87.0	93.2	99.4	106.4	113.2	120.3

Sources: National authorities and IMF staff calculations.  
<sup>1/</sup> 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.  
<sup>2/</sup> Defined as the ratio of liquid assets to net deposits. The minimum statutory requirement is 30 percent.  
<sup>3/</sup> Computed as banks’ liquidity buffers (defined as liquid assets up to 186 days) relative to banks’ short term debt.

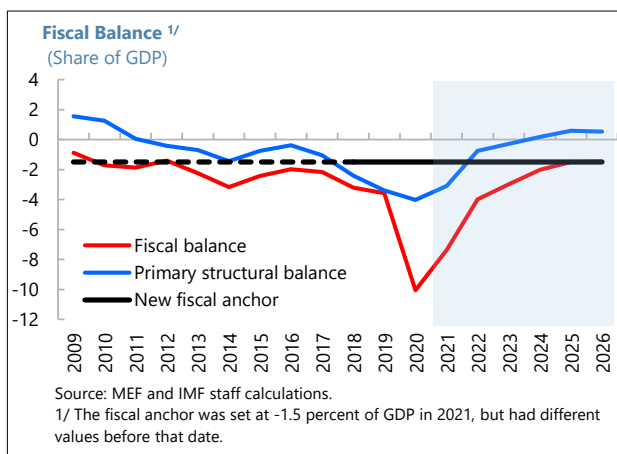
<sup>7</sup> Panama’s Banking Law of 2008 stipulates that banks must hold a minimum amount of liquid assets against qualifying deposits as “statutory liquidity requirement”, set by the SBP. Pursuant to the Law, the SBP defines the

(continued)

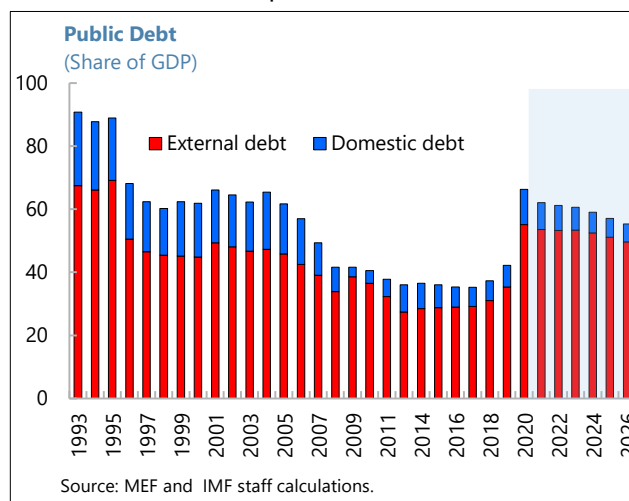
**II. Fiscal Policy.** Panama performs strongly in the fiscal policy area.

- **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.

- **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. 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 66⅓ percent in 2020, 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 are sizable NFPS financial assets amounting to 12½ percent of GDP in bank deposits by 2020 and 2¾ percent of GDP in holdings by the Sovereign Wealth Fund (FAP). As a result, net debt amounted to 41¼ percent of GDP in 2020, one of the lowest in Latin America. The debt sustainability analysis shows that public debt peaked at 66⅓ percent of GDP in 2020, declining thereafter to below 55⅓ percent of GDP by 2026 (see Annex I). The primary

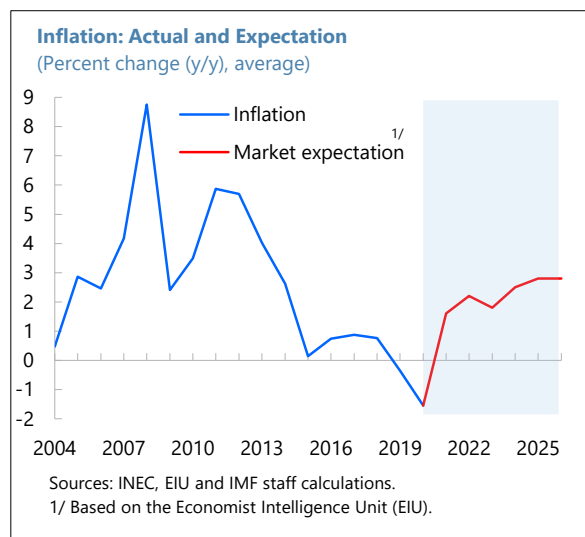


statutory liquidity requirement as “Legal Liquidity Index” (LLI) and set the minimum at 30 percent. “Qualifying deposits” include private deposits, bank deposits, and deposits from other financial institutions with a maturity up to 186 days. Deposits received from the parent banks are excluded from this requirement. “Liquid assets” are short-term assets with maturities below 186 days.

surplus of ½ percent of GDP expected under the fiscal rule for 2025 compares favorably with the primary deficit of about 1 percent of GDP required to maintain the debt to GDP ratio constant under the Debt Sustainability Analysis (Annex I).

**III. Monetary Policy.** *Panama performs 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. This has led to stable and low single-digit inflation in Panama. In fact, inflation has remained below 2 percent over the last 5 years. The dollarization regime has been in place for over a century and there is no expectation of a change in regime. Inflationary expectations are well-anchored and remain around 2 percent over the medium term.



**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 to the financial system coming 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 quite sound; and bankruptcies are rare and effectively addressed:
  - **Well-capitalized banking system.** Panama's banking system is stable, well capitalized, and liquid. The regulatory capital adequacy ratio remained high, at 16.2 percent as of end-March 2021 (compared to 15.2 percent as of end-2019), double the minimum requirement of 8 percent. Bank liquidity stood at 64 percent of short-term deposits as of end-May 2021, double the regulatory minimum of 30 percent. Notwithstanding this, as a precautionary measure the authorities established a Fund for Economic Stimulus (FES) in August 2020, resembling a lender of last resort (LOLR) facility, to safeguard financial stability by providing timely liquidity and credit in times of financial stress. As of end-June 2021, no banks had used the liquidity facility under the FES, underscoring the continued resilience of the banking sector, while five banks had submitted applications to use the funds under the stimulus program of the FES' credit facility.<sup>8</sup>

<sup>8</sup> This is the first time the credit facility under the FES is being used. In the past, BNP had intermediated part of their excess liquidity to foster credit growth. See Box 5 of the PLL request staff report for more details (January 2021).

- **Resilience to the shock of a century.** Aware of the magnitude of the COVID-19 shock, the financial authority and the local banks agreed to implement a loan servicing moratorium to safeguard the solvency of the banking system to mid-2021. In addition, the authorities created the Fund for Economic Stimulus (FES), acting with the dual purpose of being a partial lender of last resort facility and stimulating credit expansion. Loans modified during the pandemic are increasingly being serviced. The share of modified (local) loans to total (local) loans has declined significantly since its peak at almost  $\frac{1}{2}$  at mid-2020, to about  $\frac{1}{3}$  in April 2021. This improvement largely reflects an increase in the number of affected borrowers servicing their restructured loan for three consecutive months. To alleviate credit risks associated with the moratorium, an ad hoc regulatory requirement (Rule 9, 2020) mandated banks to create a provision equivalent to 3 percent of the gross modified loan portfolio. As of April 2021, banks had made provisions amounting to 3.8 percent of the gross modified loan portfolio, on average. The delinquency rate of domestic loans stood at 4.5 percent at end-March 2021, compared to 4.4 percent at end-2019.<sup>9</sup> The true extent of delinquency will only be known after the moratorium is over. As banks remain quite liquid, no bank has used the funds available under the FES by mid-June 2020.
- **Financial integrity risks.** Panama is on the FATF grey list and this could put pressure on correspondent banking relationships. Actions are being taken to fortify the AML/CFT framework, while Panama has remained on the FATF grey list since June 2019, the authorities continued to implement the FATF action plans. At this state, there appear not to have been adverse effects on the financial system.
- **Criterion 8. Effective financial sector supervision.** Panama has one of the best 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 System Stability Assessment (FSSA), conducted in 2011. In particular, they introduced the real-time gross settlement system (RTGS) and are in the process of enhancing it to enable inter-operability between bank and nonbank financial institutions, 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.
  - **Supervision.** In the wake of the COVID-19 pandemic, they had stepped up prudential supervision on banks, including 33 inspections related to COVID risks in 2020 by the SBP. In addition, to ensure that loan-loss provisioning is adequate, the SBP established an ad hoc regulatory requirement (Rule 9, 2020) which mandated banks to create a generic

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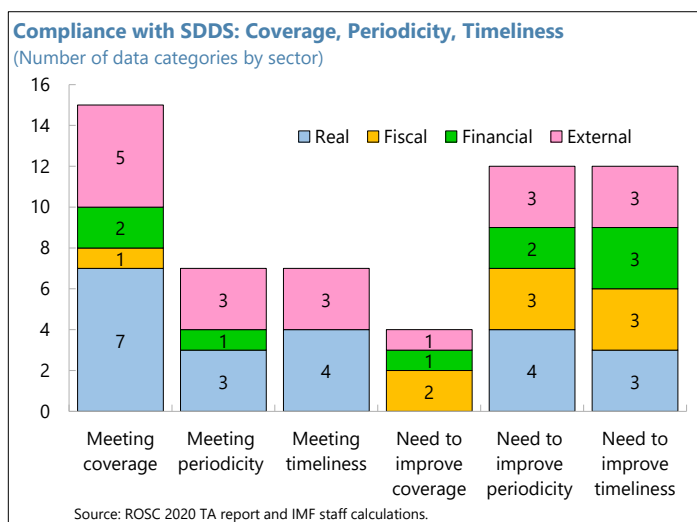
<sup>9</sup> A recent stress test by the SBP which assumed a slow recovery in 2021 showed that no banks would fall below the regulatory capital adequacy threshold. The 2021 Article IV Staff Report provides further details.

provision equivalent to 3 percent of the gross modified loan portfolio,<sup>10</sup> helping to increase total loan-loss provision to 148 percent of NPL in 2020 (from 102 percent of NPL in 2019).

- **Crisis management.** A draft legal framework aimed at expediting the bank resolution process is being drafted, following the IMF’s recommendations. The authorities are also collaborating with other member countries of the Crisis Management and Resolution Committee (CGRC) from the Central American Council of Superintendents of Banks, Insurance and Other Financial Institutions (CCSBSO) to develop a national and regional crisis management plan.

**V. Data Adequacy.** Panama does not substantially underperform in the data adequacy area. The main reason for not performing strongly in this area is because of delays in the publication of data and weaknesses in the dissemination of data. Once Panama is able to adopt the SDDS standard, the problem would be resolved.

- **Criterion 9. Data transparency and integrity.** Data provision, quality, and transparency are broadly adequate, but coverage, periodicity, and timeliness of some data series need improvement. Panama’s metadata are regularly updated on the Dissemination Standards Bulletin Board (DSBB). The authorities requested for an update assessment of their statistics as part of the Report on the Observance of Standards and Codes (ROSC), which was conducted in February 2020.<sup>11</sup> The ROSC update concluded that Panama has a well-developed macroeconomic statistical system, and that for the most part Panama observes, or largely observes, international best practices and has made progress toward meeting the SDDS requirements. In particular, to subscribe to SDDS, Panama has to improve data coverage, periodicity and timeliness (see text chart). Improving coverage is needed in 4 out of 19 data categories (central and general government operations, interest



<sup>10</sup> 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.

<sup>11</sup> Panama has participated in the Enhanced General Data Dissemination System (e-GDDS) since 2000, and started publishing key data through the National Summary Data Page (NSDP) in October 2018, a step towards SDDS. In 2000, Panama became a participant in the General Data Dissemination Standard (GDDS), which the Board enhanced in 2015 (e-GDDS) by encouraging broader data publication. Since then about 60 percent of these countries — including Panama—have their NSDP.

rates, and reserves); periodicity and timeliness are desired for 12 data categories across sectors. The authorities are transparent about their plans for improvement, with some to be addressed in the context of the PLL.

## POLICIES UNDER THE PLL

**14. 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 in the process of being reignited once economic recovery gathers momentum.

**15. Re-anchoring fiscal policy.** Adhering to a gradual fiscal consolidation following the revised SFRL will ensure a reduction in public debt burden in the medium term (from 66¼ percent of GDP in 2020 to 55¼ in 2026). The primary fiscal balance envisaged under the fiscal rule for 2025 (i.e., a primary surplus of ½ percent of GDP) is much higher than the primary balance that would stabilize the current debt to GDP ratio (i.e., a primary deficit of about 1 percent of GDP, see Annex I), which will ensure a declining debt to GDP ratio over the medium term by simply following the fiscal rule. Fiscal consolidation plans beyond 2021, to be contained in an updated medium-term fiscal framework, will be supported by improvements in tax administration (with ongoing modernization efforts in the General Direction of Revenues and Customs), combined with moderating primary expenditure growth.<sup>12</sup> The plans to achieve the targeted fiscal consolidation in 2022 (i.e., a NFPS fiscal deficit of 4 percent of GDP) are on track, as the authorities are committed to tailoring next year's expenditures to the fiscal objective and this updated macro-fiscal framework.<sup>13</sup>

**16. Enhancing financial integrity.** Exiting the FATF's watchlist is key to preserving Panama's position as a regional financial center. Continuing the recent progress in addressing the deficiencies identified by the FATF in Panama's AML/CFT regime, the authorities should urgently address all remaining items on the FATF action plan to exit the grey list. To this end, the authorities are receiving technical assistance on AML/CFT issues from the Fund, World Bank, the IDB, the U.S. and the European Commission. In addition, the authorities have committed to adopt, by October 2021, measures to strengthen the effectiveness of their AML/CFT framework to support the country's efforts to exit the FATF list of jurisdictions with strategic deficiencies (structural benchmark).

**17. Bolstering financial stability.** Tight supervision and monitoring are needed to safeguard stability. Staff reiterates the importance of recalibrating the *ad hoc* provisioning requirement on modified loans in line with evolving circumstances as the transition period between end-June to

<sup>12</sup> Improvements in reducing tax evasion (over 6 percent of GDP) as well as rationalization of tax expenditures (about 4 percent of GDP), could provide an additional source of revenue mobilization if needed to comply with the fiscal rule. By the same token, there is room for a gradual increase in some taxes like the VAT and fuel tax rates (among the lowest of the region), if need be.

<sup>13</sup> The authorities' medium-term fiscal framework that supports fiscal consolidation in line with the fiscal rule is still being finalized. Nonetheless, fiscal projections in this report reflect the main elements of that framework.

end-September 2021 provides a window to observe the behavior of these loans after the end of the moratorium on servicing bank loans on June 30, 2021. A risk-focused loan portfolio examination of all banks, including an assessment of fundamental asset quality, would help assess banks' credit risk and capital buffers. In the medium term, implementing the Basel III capital conservation buffer and net stable funding ratio would enhance banks' capital and liquidity buffers. In addition, establishing a roadmap for capital markets development would expand and diversify the sources of financing and enhance the prospects for a higher and more inclusive growth. The authorities have requested technical assistance to enhance the regulatory and supervisory frameworks along international standards as well as requesting a mission under the Financial Sector Assessment Program (FSAP).

**18. Improving public financial management.** To prevent the resurfacing of arrears in the future, the authorities have adhered to an Action Plan aimed at enhancing budget preparation, execution and fiscal transparency.<sup>14</sup> In this vein, MEF intends to improve, with the Fund's technical support, its capacity to forecast revenues and formulate a realistic medium-term revenue framework. Furthermore, the alignment of departmental expenditure ceilings with policy priorities and aggregate expenditure targets is also being reinforced, thereby improving the prioritization of programs subject to available resources. The whole budget preparation will transition towards a multi-year framework from 2022, by setting indicative ceilings to departments beyond the budget year and facilitating transfers of unspent appropriations between fiscal years, which should improve investment planning and the timely payment of its related obligations. With regard to budget execution, the government intends to strengthen the legal binding nature of budgetary appropriations by drafting an Organic Budget Law with IMF technical assistance and adapt the information management system to track more closely the execution of contracts. Lastly, accounting practices will be adapted to ensure the disclosure of all types of arrears in annual financial statements, while the envisaged publication of below the line data in fiscal reports will allow MEF to timely reflect transactions of commercial debt and disclose its outstanding stocks. As regards fiscal transparency, disclosure of public procurement information has been significantly enhanced by Law 153/2020; for many companies there is information on the names of the beneficial owner, however for other companies beneficial owners are not always published.<sup>15</sup> The authorities should also ensure that ex-post audits of COVID-19 expenditure are conducted and published.

**19. Strengthening data adequacy.** The authorities have begun 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 2020–24 and support the coordination among data users and data providers. The National Institute of Statistics and Census (INEC) has expanded its outreach efforts toward data users through innovative

<sup>14</sup> For more detailed information on ongoing PFM reforms, see the Staff Report for the 2021 Article IV Consultation.

<sup>15</sup> Companies with contracts above US\$500,000 are required to disclose the name of their beneficial owners to the government but the Supreme Court has ruled that the information cannot be publicly disclosed for privacy reasons. Nevertheless, the government can disclose the information on beneficial owners to the relevant agencies in case of a criminal investigation.

technologies and establishing an intelligence unit. The efforts to rebase GDP and update CPI weights continue. With increased efforts and resources, Panama could meet SDDS requirements ahead of the original target of 2022. The benchmark on the publication of the international reserve template is on track to be achieved by end-September 2021.

## OTHER ISSUES

**20. 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 (34.4 percent), and exports (13.9 percent). In addition, the impact of the PLL arrangement on the Fund's liquidity and potential exposure continues to be moderate. The commitment to Panama is moderate and the PLL arrangement reduces the Fund's forward commitment capacity only marginally. Moreover, the authorities have excellent track record of servicing their debt obligations.

**21. Safeguards assessment.** The BNP has implemented most of the recommendations from the first-time safeguards assessment completed in September 2020. In particular, the criteria for selection and appointment of external auditors have been strengthened and investment practices were enhanced through revised policy and governance arrangements. Work continues to reinforce internal audit and expedite finalization of the legal framework for implementing the FES, the approval of which is now delayed to accommodate further consultation among internal stakeholders.

**22. Exit strategy.** Given the lower external risks as the global economy strengthens and the projected improvements in Panama's fiscal and external positions in the baseline, the authorities will need to define and communicate their exit strategy in due course. 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 will need 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.

## STAFF APPRAISAL

**23. 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, was 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 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).

**24. Implementation of policies under the PLL arrangement remains on track.** Panama has begun adopting the policies under the PLL. As noted, the end-March 2021 indicative targets were both met, as well as the end-May structural benchmark on the National Statistical Council. Although external risks remain elevated, particularly from uncertainties arising from the evolution of the pandemic (including possible more contagious mutations of the COVID-19 virus which dampen the effectiveness of vaccines), 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 a budgetary reform plan based on IMF recommendations. The gradual fiscal consolidation following the SFRL will ensure a decline in the NFPS debt burden to below 60 percent of GDP starting 2024 and continuing reduction thereafter.

**25. Measures to strengthen the policy and institutional frameworks are advancing.** The authorities intend to enhance fiscal credibility by continuing to link budget allocations with the medium-term fiscal framework through a robust multiannual budget framework with safeguards against arrears accumulation (including clearer sanctions for not respecting the budget law). They expressed interest in further technical assistance to improve their capacity to forecast revenues and develop a multi-year revenue framework. The authorities are committed to continuing their effort to fortify the financial sector by intensifying regulatory supervision and monitoring of banks, along with internal macrofinancial stress tests to ensure that risks are adequately captured and capital adequacy and loan-loss provision are adequate, supported by IMF technical assistance. The authorities indicate that exiting the FATF grey list continues to be a top priority, given the country's role as a regional financial center. They are making progress in implementing the FATF action plan. They have also embraced the recommendations of the 2020 ROSC mission and are committed to statistical improvement, including subscription to the SDDS by 2022.

**26. Accelerated policy actions are needed to strengthen macroeconomic resilience and reach higher and more inclusive growth.** Filling the socioeconomic gaps widened by the pandemic is imperative for sustainable growth. The social support programs operating during the pandemic were key to sustaining the consumption needs of the vulnerable, but post-pandemic recovery necessitates long-term strategic policy action to align Panama's social outcomes with those of countries with comparable income levels. Continuous cooperation with international agencies and other countries will help achieve the goal of fostering an inclusive and broad-based recovery.

**27. Against this background, staff recommends the completion of the first review under the PLL arrangement.**

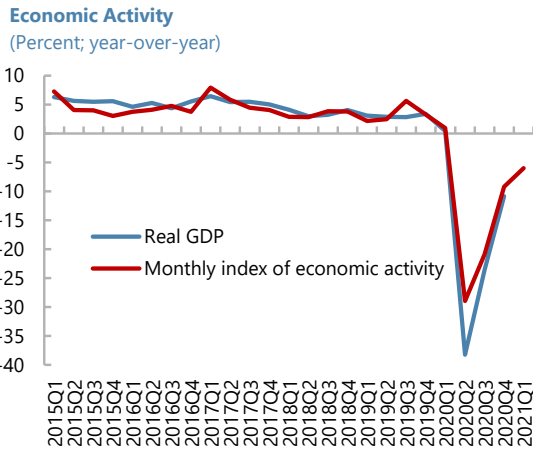
## Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

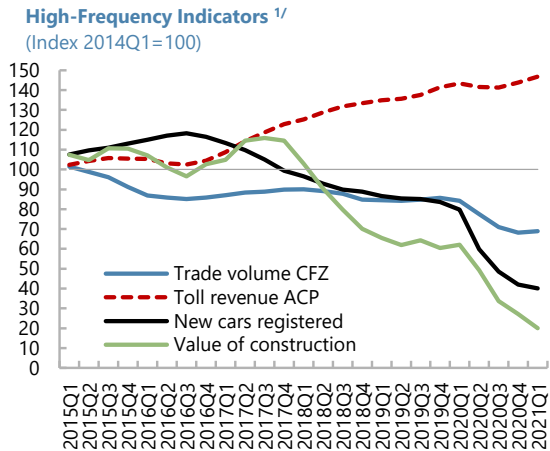
1. Panama has consulted with the Fund in accordance with paragraph 3(a) of the Precautionary and Liquidity Line Arrangement for Panama (EBS/21/2, 01/05/21, the “Arrangement”) to review Panama’s continued qualification for a Precautionary and Liquidity Line Arrangement and its program implementation and policy understandings for the future.
2. The written communication from the Minister of Economy and Finance of Panama dated July 15, 2021 (the “July 2021 Written Communication”) shall be attached to the Arrangement and the written communication from the Minister of Economy and Finance of Panama dated January 5, 2021, together with its tables and technical appendix, shall be read as supplemented and modified by the July 2021 Written Communication.
3. The Fund decides that the first review specified in paragraph 3(a) of the Arrangement is completed.

**Figure 1. Panama: Real Sector Developments**

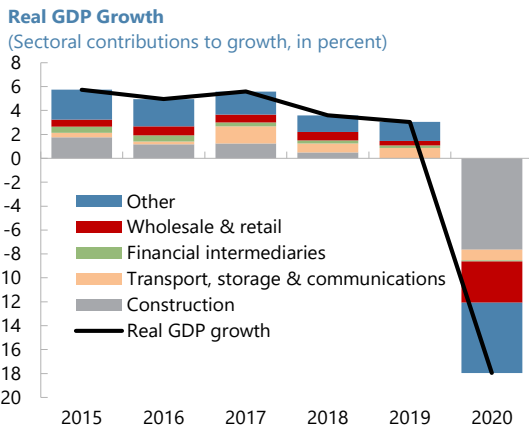
The economic contraction was sharp and especially drastic in Q2-2020



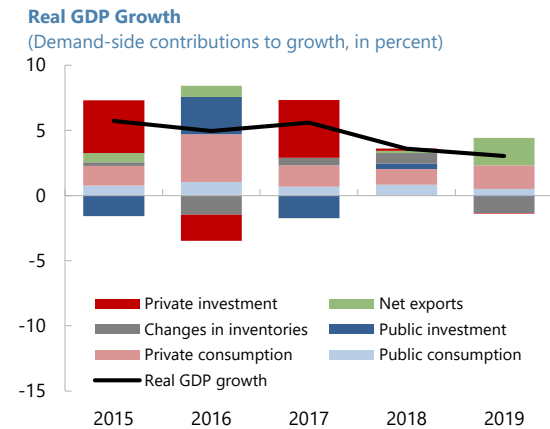
...amid plummeting construction sector activity and continued weakness in the CFZ.



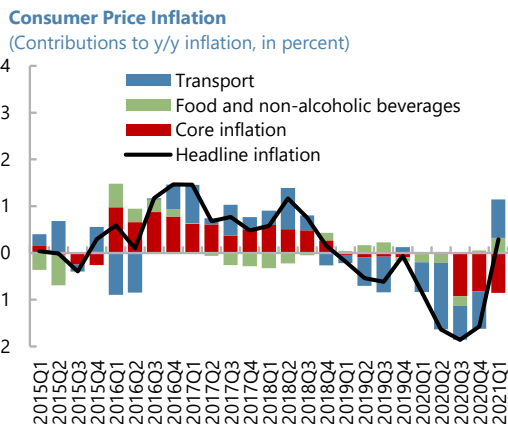
All sectors (but mining) experienced a contraction in 2020, with construction contributing the most.



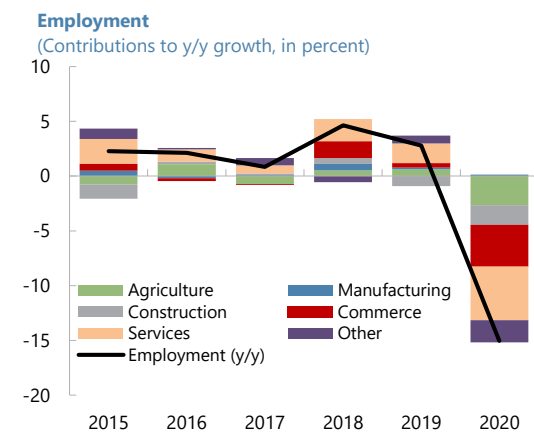
Before the pandemic, investment was already weak, with consumption and exports propelling growth.



Prices were soft in 2020, reflecting weak demand.



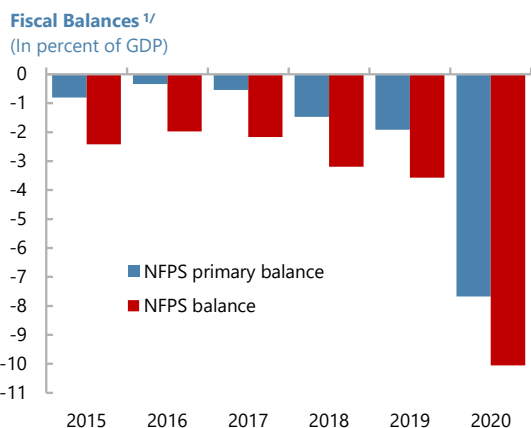
Employment growth has collapsed, with the services sector being affected the most.



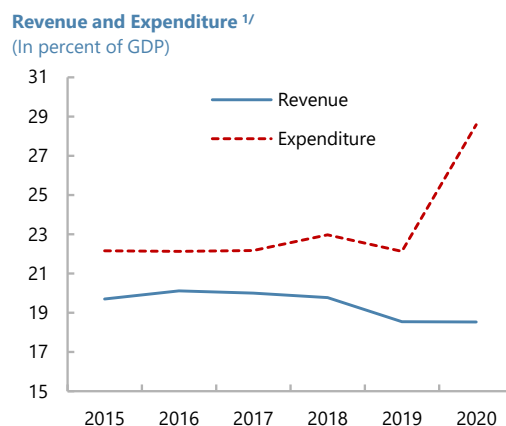
Sources: National authorities and IMF staff calculations.  
1/ 4-quarter moving averages. Zona Libre de Colon (ZLC) measured in gross metric tons.

**Figure 2. Panama: Fiscal Developments**

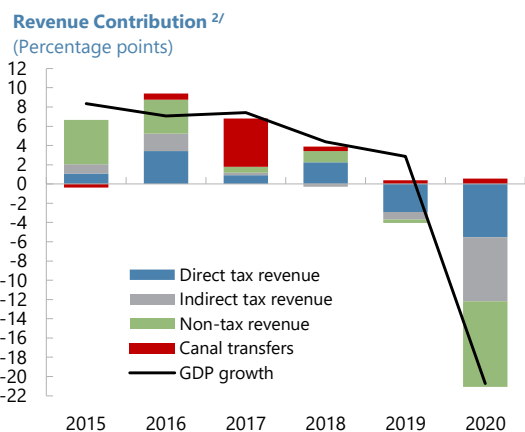
The fiscal deficit sharply rose as a result of the pandemic ...



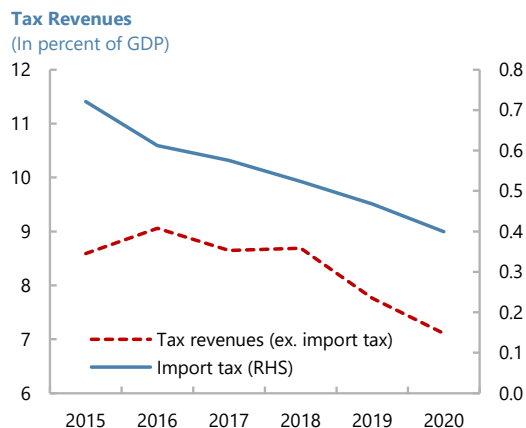
... reflecting strong denominator effects on the expenditure side and a loss of revenue.



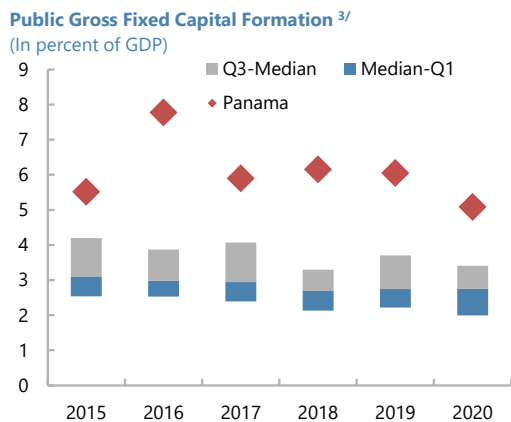
Low tax revenue explains most of the revenue decline...



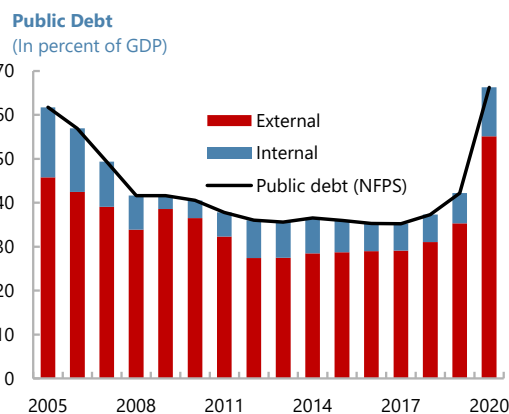
...and challenges in tax and customs administration, and tax exceptions continue to affect tax and tariff collection.



Public investment had to be moderated to accommodate COVID related spending.



Public debt increased by more than 20 percent of GDP, reflecting higher deficit and the denominator effect.



Sources: National Authorities, World Economic Outlook and IMF staff calculations.

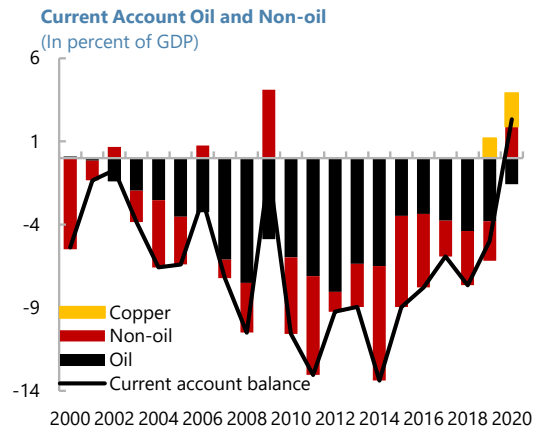
1/ Non-Financial Public Sector.

2/ Data refer to the Central Government.

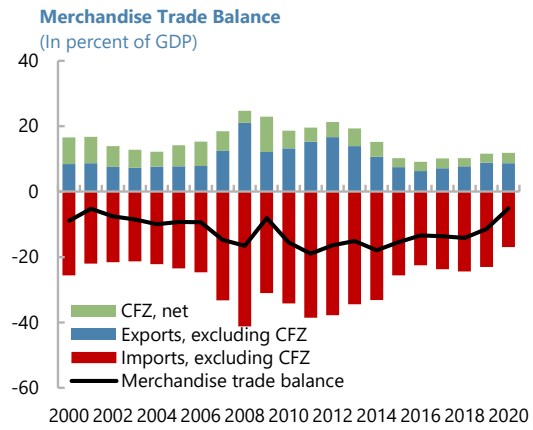
3/ Countries in the chart are CAPDR (Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica, Panama and Dominican Republic) and LA6 (Brazil, Chile, Colombia, Mexico, Peru, and Uruguay).

**Figure 3. Panama: External Sector Developments**

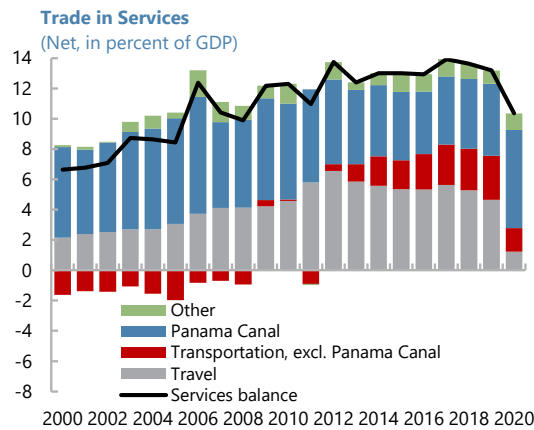
The CA deficit has improved considerably, on the back of higher copper exports and lower oil prices...



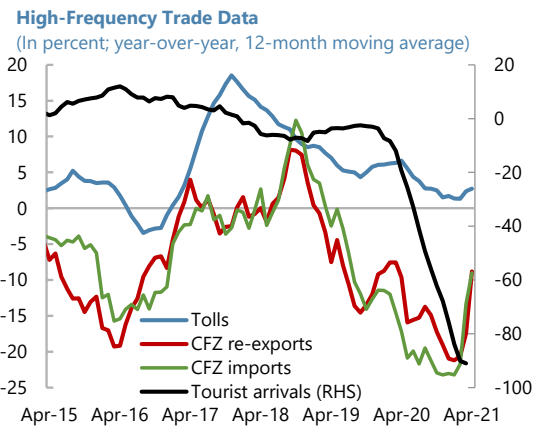
...which reduced the merchandise trade deficit.



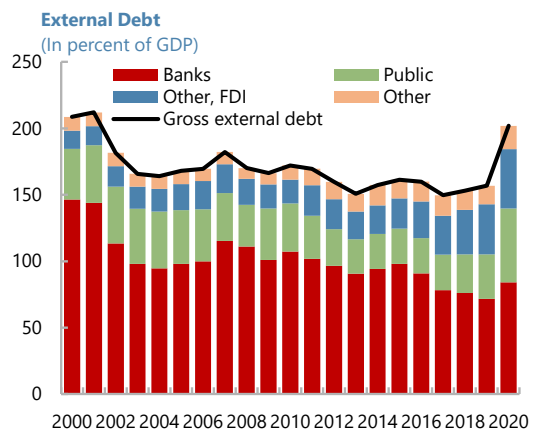
Weak tourism and air travel reduced service exports, ...



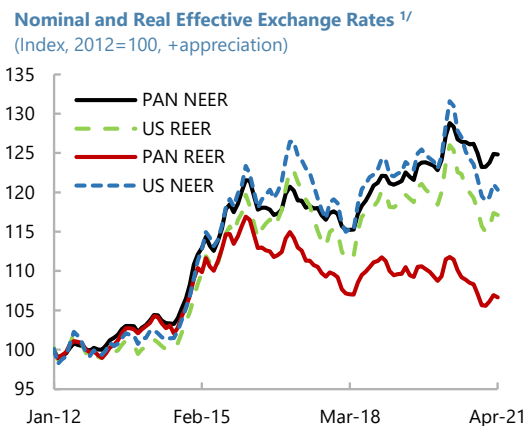
... while the Canal revenue remained resilient, and the decline in CFZ re-exports was offset by a decline in imports.



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



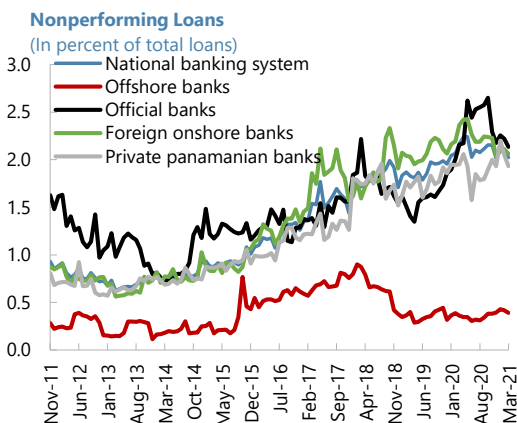
The REER depreciated in 2020 relative to 2019, amid low inflation in Panama relative to peers.



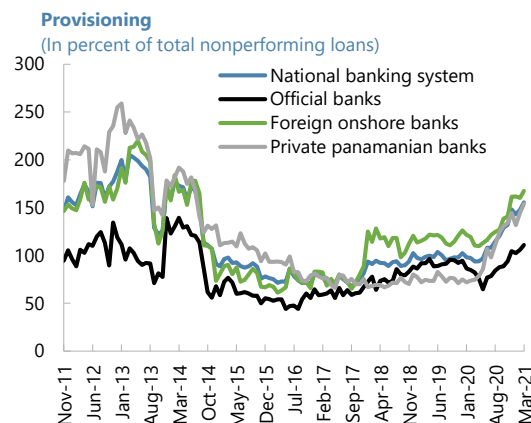
Sources: IMF World Economic Outlook; INEC and IMF staff calculations.  
1/ Panama's NEER and REER exclude Venezuela.

**Figure 4. Panama: Banking Sector Soundness**

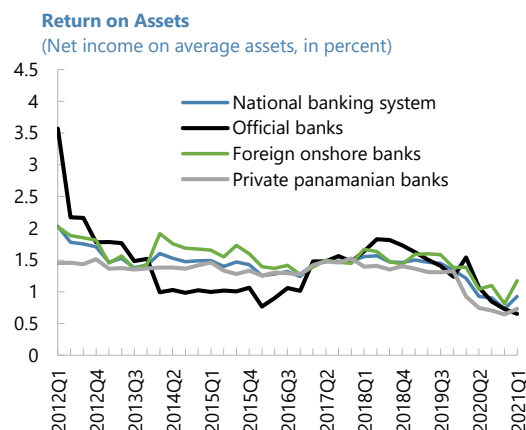
*NPLs rose following weakness in the economy...*



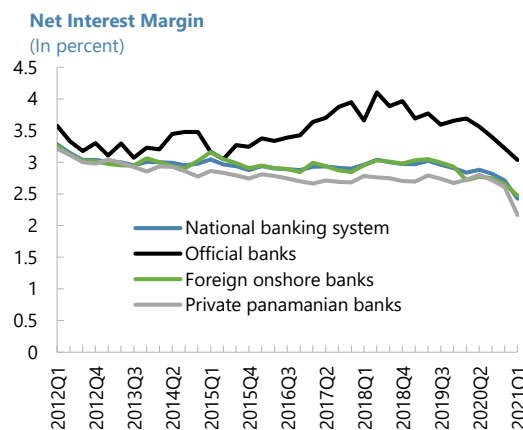
*... loan-loss provisioning increased with the adoption of stricter provisioning requirements.*



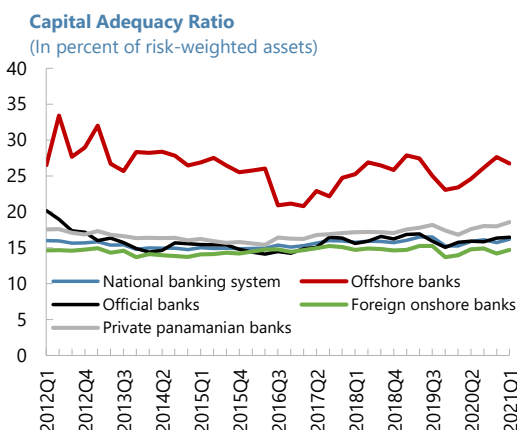
*Profitability declined amidst challenging operating environment and higher provisioning...*



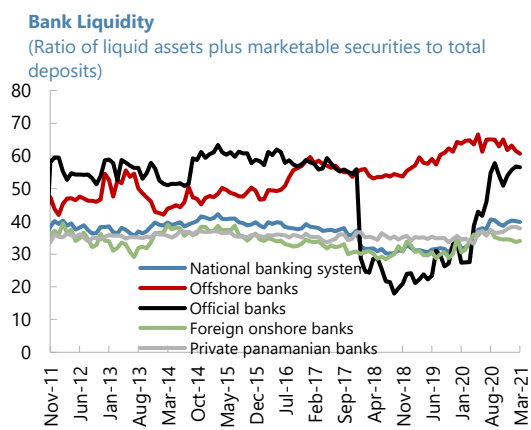
*...while net interest margins declined slightly.*



*Banks' capital adequacy remains above regulatory minimum.*



*.. while liquidity increased and remained ample.*



Sources: SBP and IMF staff calculations.



**Table 2. Panama: Summary Operations of the Non-Financial Public Sector, 2016–26<sup>1</sup>**  
(In percent of GDP)

	2016	2017	2018	2019	Est.		Projections				
					2020	2021	2022	2023	2024	2025	2026
<b>Non-Financial Public Sector</b>											
<b>Revenues</b>	<b>20.1</b>	<b>20.0</b>	<b>19.8</b>	<b>18.5</b>	<b>18.5</b>	<b>19.6</b>	<b>20.1</b>	<b>20.6</b>	<b>20.9</b>	<b>21.1</b>	<b>21.2</b>
Current revenue	20.1	20.0	19.8	18.6	18.6	19.2	20.1	20.6	20.9	21.1	21.1
Tax revenue	9.7	9.2	9.2	8.2	7.5	8.2	8.9	9.2	9.5	9.7	9.8
Nontax revenue	3.4	4.5	4.4	4.3	4.8	4.5	4.7	4.7	4.7	4.7	4.7
<i>o/w</i> : Panama Canal fees and dividends	1.8	2.6	2.6	2.6	3.5	2.9	3.0	3.1	3.1	3.1	3.1
Social security agency	5.8	5.7	5.6	5.6	5.8	5.8	5.7	5.7	5.7	5.7	5.7
Public enterprises' operating balance	0.1	0.0	0.0	0.0	-0.1	0.1	0.2	0.2	0.2	0.2	0.2
Other <sup>2/</sup>	1.0	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.3	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
<b>Expenditure</b>	<b>22.1</b>	<b>22.2</b>	<b>23.0</b>	<b>22.1</b>	<b>28.6</b>	<b>26.9</b>	<b>24.1</b>	<b>23.6</b>	<b>22.9</b>	<b>22.6</b>	<b>22.6</b>
<i>o/w COVID-19 related expenditure</i>					3.0	2.2	0.0	0.0	0.0	0.0	0.0
Current primary expenditure	13.5	13.6	13.7	14.1	20.8	19.3	16.8	16.4	15.9	15.6	15.5
Central government <sup>3/</sup>	7.9	8.0	8.1	8.2	13.2	11.6	9.4	9.1	8.9	8.6	8.6
Rest of the general government	5.6	5.6	5.6	5.9	7.6	7.6	7.4	7.2	7.1	6.9	6.9
Social security agency	5.1	5.2	5.2	5.4	7.0	7.0	6.9	6.8	6.6	6.5	6.5
Decentralized agencies	0.4	0.4	0.4	0.4	0.6	0.6	0.5	0.5	0.5	0.4	0.4
Interest	1.7	1.7	1.8	1.9	2.7	3.1	2.6	2.4	2.3	2.3	2.2
Capital	6.7	6.5	6.3	5.5	5.1	4.6	4.7	4.7	4.7	4.7	4.9
Accrued spending <sup>4/</sup>	0.2	0.3	1.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance<sup>5/</sup></b>	<b>-2.0</b>	<b>-2.2</b>	<b>-3.2</b>	<b>-3.6</b>	<b>-10.1</b>	<b>-7.4</b>	<b>-4.0</b>	<b>-3.0</b>	<b>-2.0</b>	<b>-1.5</b>	<b>-1.5</b>
<b>Net financing<sup>6/</sup></b>	<b>1.7</b>	<b>2.8</b>	<b>4.5</b>	<b>4.4</b>	<b>6.6</b>	<b>7.4</b>	<b>4.0</b>	<b>3.0</b>	<b>2.0</b>	<b>1.5</b>	<b>1.5</b>
External	2.1	2.1	3.1	5.1	10.5	4.3	3.3	3.6	2.7	2.1	2.0
Domestic	-0.5	0.8	1.4	-0.7	-3.9	3.1	0.7	-0.7	-0.7	-0.6	-0.5
<b>Panama Canal Authority (ACP)</b>											
<b>Revenue</b>	<b>4.3</b>	<b>4.6</b>	<b>4.8</b>	<b>5.0</b>	<b>6.7</b>	<b>5.9</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
<b>Expenditure</b>	<b>4.6</b>	<b>4.7</b>	<b>4.6</b>	<b>4.6</b>	<b>5.6</b>	<b>5.3</b>	<b>5.3</b>	<b>5.6</b>	<b>5.8</b>	<b>5.6</b>	<b>5.3</b>
Current primary expenditure	1.4	1.5	1.6	1.5	1.8	1.7	1.8	1.9	1.9	1.9	1.9
Transfers to the government	1.8	2.6	2.6	2.6	3.5	2.9	3.0	3.1	3.1	3.1	3.1
Interest payments	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	1.3	0.4	0.3	0.3	0.2	0.6	0.3	0.7	0.8	0.6	0.3
<b>Overall balance</b>	<b>-0.3</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.4</b>	<b>1.2</b>	<b>0.6</b>	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>
<b>Consolidated Non-Financial Public Sector</b>											
<b>Overall balance (incl. ACP)</b>	<b>-2.2</b>	<b>-2.2</b>	<b>-2.9</b>	<b>-3.2</b>	<b>-8.9</b>	<b>-6.7</b>	<b>-3.3</b>	<b>-2.6</b>	<b>-1.7</b>	<b>-1.0</b>	<b>-0.8</b>
<b>Memorandum items:</b>											
Primary balance (excl. ACP)	-0.3	-0.5	-1.5	-1.9	-7.7	-4.6	-1.7	-0.8	0.1	0.6	0.5
Structural primary balance (excl. ACP) <sup>7/</sup>	-0.4	-1.0	-2.3	-3.2	-4.7	-3.3	-0.8	-0.3	0.2	0.6	0.5
Primary balance (incl. ACP)	-0.4	-0.4	-1.0	-1.2	-6.1	-3.6	-0.7	-0.1	0.6	1.3	1.4

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

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

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

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

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

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

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

7/ Primary balance adjusted for the output gap.

**Table 3. Panama: Summary Operations of the Central Government, 2016–26**  
(In percent of GDP)

	2016	2017	2018	2019	Est.	Projections					
					2020	2021	2022	2023	2024	2025	2026
<b>Revenues and grants</b>	<b>13.3</b>	<b>14.0</b>	<b>13.9</b>	<b>12.7</b>	<b>12.5</b>	<b>13.3</b>	<b>13.8</b>	<b>14.1</b>	<b>14.4</b>	<b>14.6</b>	<b>14.7</b>
Current revenue	13.3	13.9	13.9	12.7	12.5	12.8	13.8	14.1	14.4	14.6	14.7
Taxes	9.7	9.2	9.2	8.2	7.5	8.2	8.9	9.2	9.5	9.7	9.8
Direct taxes	5.1	4.9	5.1	4.4	4.3	4.5	4.8	5.0	5.1	5.2	5.2
Income tax	4.6	4.4	4.6	4.0	3.9	4.1	4.4	4.5	4.6	4.7	4.7
Tax on wealth	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Indirect taxes	4.6	4.3	4.1	3.8	3.2	3.6	4.0	4.2	4.4	4.5	4.5
Import tax	0.6	0.6	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5
ITBMS	2.6	2.5	2.3	2.2	1.8	2.0	2.2	2.4	2.5	2.6	2.7
Petroleum products	0.5	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Other tax on domestic transactions	0.9	0.8	0.8	0.8	0.7	0.7	0.8	0.8	0.9	0.9	0.9
Nontax revenue	3.6	4.7	4.6	4.5	5.0	4.7	5.0	5.0	5.0	5.0	5.0
Dividends	1.5	2.3	2.4	2.2	2.8	2.5	2.7	2.8	2.8	2.8	2.8
<i>Of which</i> : Panama Canal Authority	1.2	1.9	1.8	1.8	2.4	2.1	2.2	2.2	2.2	2.2	2.2
Panama Canal Authority: fees per ton <sup>1/</sup>	0.7	0.7	0.8	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8
Transfers from decentralized agencies	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	0.9	1.2	1.0	1.0	0.8	1.1	1.1	1.1	1.1	1.1	1.1
Capital revenue	0.1	0.1	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
<b>Total expenditure</b>	<b>17.5</b>	<b>17.5</b>	<b>17.5</b>	<b>17.5</b>	<b>22.4</b>	<b>20.0</b>	<b>17.9</b>	<b>17.1</b>	<b>16.4</b>	<b>16.1</b>	<b>16.2</b>
<i>o/w COVID-19 related expenditure</i>					3.0	2.2	0.0	0.0	0.0	0.0	0.0
Current	10.7	10.9	11.0	11.3	17.2	16.1	13.3	12.6	12.0	11.6	11.4
Wages and salaries	4.3	4.6	4.7	4.8	6.3	5.7	5.5	5.3	5.0	4.9	4.9
Goods and services	1.3	1.4	1.2	1.2	1.7	1.3	1.2	1.2	1.2	1.1	1.1
Current expenditure of CSS	0.5	0.6	0.6	0.7	0.6	0.9	1.1	0.9	0.7	0.6	0.5
Transfers to public and private entities	2.8	2.7	2.7	2.8	6.0	5.1	3.0	2.8	2.8	2.7	2.7
Interest	1.7	1.7	1.8	1.9	2.7	3.1	2.6	2.4	2.3	2.3	2.2
Domestic	0.3	0.4	0.3	0.4	0.5	0.6	0.5	0.5	0.4	0.4	0.4
External	1.4	1.4	1.4	1.5	2.1	2.5	2.1	2.0	2.0	1.9	1.8
Capital	6.5	6.1	5.8	5.5	5.2	3.9	4.5	4.5	4.4	4.5	4.7
Accrued spending <sup>2/</sup>	0.3	0.4	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings <sup>3/</sup>	2.6	3.0	2.9	1.4	-4.7	-3.2	0.5	1.6	2.4	3.0	3.3
<b>Overall balance</b> <sup>4/</sup>	<b>-4.1</b>	<b>-3.6</b>	<b>-3.7</b>	<b>-4.8</b>	<b>-9.9</b>	<b>-6.8</b>	<b>-4.1</b>	<b>-3.0</b>	<b>-2.0</b>	<b>-1.4</b>	<b>-1.4</b>
Financing (net) <sup>5/</sup>	3.5	4.6	4.3	3.4	8.8	6.8	4.1	3.0	2.0	1.4	1.4
External	2.1	2.4	3.3	5.5	10.5	4.3	3.3	3.6	2.7	2.1	2.0
<i>Of which</i> : Multilateral lenders	1.2	1.5	1.4	1.2	4.7	2.9	1.3	1.2	1.1	1.0	0.9
<i>Of which</i> : Private creditors	1.7	2.4	2.7	4.9	9.0	4.1	2.8	3.7	4.4	3.8	3.2
<i>Of which</i> : Other lenders	-0.8	-1.5	-0.7	-0.7	-3.2	-2.7	-0.8	-1.2	-2.8	-2.7	-2.2
Domestic	1.3	2.2	0.9	-2.1	-1.6	2.5	0.8	-0.7	-0.7	-0.6	-0.5
<i>Of which</i> : Net credit from banks	0.5	1.1	0.4	-2.2	-3.4	3.4	0.9	0.0	0.0	-0.1	0.0
<i>Of which</i> : Net credit from non-banks	0.6	0.8	-0.3	1.6	-0.1	-1.0	-0.1	-0.2	-0.2	-0.1	0.0
<i>Of which</i> : Other lenders	0.3	0.3	0.8	-1.5	1.8	0.0	0.0	-0.5	-0.5	-0.5	-0.5
<b>Memorandum items:</b>											
Primary balance	-2.4	-1.8	-1.9	-2.9	-7.2	-3.7	-1.5	-0.5	0.3	0.9	0.8
GDP (in millions of US\$)	57,908	62,203	64,928	66,788	52,938	60,332	64,587	69,173	74,084	79,344	84,978

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

1/ Includes public service fees.

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

3/ Current revenues and grants less current expenditure.

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

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

**Table 4. Panama: Public Debt, 2016–26**  
(In percent of GDP)

	2016	2017	2018	2019	Est.	Projections					
					2020	2021	2022	2023	2024	2025	2026
<b>Central Government</b>											
<b>Gross debt</b> <sup>1/</sup>	39.0	39.6	42.3	47.6	73.1	68.0	66.8	65.8	63.9	61.6	59.5
<i>of which: held by social security (CSS)</i>	3.2	3.7	4.8	5.4	6.8	6.0	5.6	5.2	4.9	4.5	4.2
Domestic	9.4	9.6	10.2	10.9	16.2	13.0	12.1	11.1	10.1	9.4	8.8
<i>of which: previously unrecorded</i>	1.2	1.6	2.3	0.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0
External	29.6	30.0	32.1	36.7	56.9	55.0	54.7	54.7	53.7	52.3	50.8
<b>Financial assets</b>	5.9	4.3	4.1	6.3	12.5	8.1	6.7	6.8	6.8	6.9	7.0
Deposits <sup>2/</sup>	3.4	1.9	1.9	3.9	8.3	3.4	2.3	2.2	2.0	2.0	1.8
Sovereign Wealth Fund <sup>3/</sup>	2.2	2.1	2.0	2.1	2.6	2.3	2.1	2.5	2.8	3.1	3.4
Loans	0.0	0.0	0.0	0.0	1.2	1.3	1.2	1.2	1.1	1.0	0.9
SDR holdings	0.3	0.3	0.3	0.3	0.3	1.1	1.1	1.0	0.9	0.9	0.8
<b>Net debt</b>	33.1	35.3	38.2	41.3	60.6	59.9	60.0	59.0	57.1	54.8	52.6
<b>Non-Financial Public Sector</b>											
<b>Gross debt</b> <sup>1/</sup>	35.3	35.3	37.3	42.2	66.3	62.1	61.2	60.6	59.0	57.1	55.3
<i>of which: previously unrecorded</i>	0.7	1.0	2.1	0.7	2.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financial assets</b>	14.8	12.2	11.3	13.1	22.8	16.6	14.7	14.2	13.7	13.3	12.9
Central government	5.9	4.3	4.1	6.3	12.5	8.1	6.7	6.8	6.8	6.9	7.0
Decentralized institutions (incl. CSS) <sup>2/</sup>	8.9	7.9	7.2	6.8	10.3	8.5	8.0	7.4	6.9	6.4	6.0
<b>Net debt</b>	20.5	23.1	26.0	29.1	43.4	45.5	46.5	46.4	45.3	43.8	42.3
<b>Memorandum items:</b>											
Net Debt as defined under SFRL <sup>4/</sup>	36.8	37.5	40.4	45.5	70.5	65.8	64.6	63.3	61.1	58.6	56.2

Source: Ministry of Finance and IMF staff calculations.

1/ Includes staff adjustment for accumulated obligations related to unrecorded expenditure in 2015-2018.

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, 2016–26<sup>1</sup>**  
(In millions of U.S. dollars, unless otherwise stated)

	2016	2017	2018	2019	Est.		Projections				
					2020	2021	2022	2023	2024	2025	2026
(in millions of balboa at end of period)											
<b>Net foreign assets</b>	<b>3,974</b>	<b>1,752</b>	<b>542</b>	<b>2,547</b>	<b>10,727</b>	<b>10,918</b>	<b>12,941</b>	<b>13,801</b>	<b>14,711</b>	<b>15,680</b>	<b>16,709</b>
Short-term foreign assets, net	3,974	1,752	542	2,547	10,727	12,106	12,941	13,801	14,711	15,680	16,709
National Bank of Panama	4,331	2,957	2,218	3,646	8,485	9,673	10,357	11,094	11,884	12,729	13,635
Rest of banking system	-356	-1,204	-1,677	-1,099	2,242	2,433	2,584	2,707	2,828	2,951	3,075
Long-term foreign liabilities	0	0	0	0	0	0	0	0	0	0	0
<b>Net domestic assets</b>	<b>34,250</b>	<b>38,337</b>	<b>40,747</b>	<b>39,035</b>	<b>37,142</b>	<b>43,624</b>	<b>45,988</b>	<b>49,918</b>	<b>54,212</b>	<b>58,900</b>	<b>64,020</b>
Public sector (net credit)	-8,099	-7,425	-6,929	-9,431	-9,643	-9,631	-9,631	-9,631	-9,631	-9,631	-9,631
Central government (net credit)	-1,209	-505	-305	-1,507	-3,369	-3,357	-3,357	-3,357	-3,357	-3,357	-3,357
Rest of the public sector (net credit)	-6,890	-6,920	-6,624	-7,924	-6,273	-6,273	-6,273	-6,273	-6,273	-6,273	-6,273
Private sector credit	48,161	51,310	53,631	54,901	53,465	60,933	65,231	69,862	74,822	80,135	85,824
Private capital and surplus	-9,597	-10,390	-10,676	-11,384	-10,890	-12,411	-13,287	-14,230	-15,240	-16,323	-17,481
Other assets (net)	3,785	4,841	4,720	4,949	4,210	4,732	3,675	3,917	4,261	4,719	5,308
<b>Liabilities to private sector</b>	<b>38,546</b>	<b>40,565</b>	<b>41,690</b>	<b>42,631</b>	<b>46,667</b>	<b>54,542</b>	<b>58,929</b>	<b>63,720</b>	<b>68,924</b>	<b>74,579</b>	<b>80,729</b>
Total deposits	38,342	40,410	41,475	42,239	45,703	53,420	57,729	62,434	67,547	73,105	79,149
Demand deposits	8,226	8,337	8,710	7,892	9,100	10,826	12,130	13,598	15,244	17,088	19,156
Time deposits	20,493	21,796	22,368	23,849	24,264	28,236	30,227	32,373	34,672	37,133	39,770
Savings deposits	9,622	10,278	10,398	10,498	12,339	14,359	15,371	16,462	17,631	18,883	20,224
Bonds	204	155	215	392	964	1,121	1,201	1,286	1,377	1,475	1,580
Deposit as % of private sector credit	79.6	78.8	77.3	76.9	85.5	87.7	88.5	89.4	90.3	91.2	92.2
(12-month change in relation to liabilities to the private sector at the beginning of the period)											
Net foreign assets	-2.8	-5.8	-3.0	4.8	19.2	0.4	3.7	1.5	1.4	1.4	1.4
Net domestic assets	7.3	10.6	5.9	-4.1	-4.4	13.9	4.3	6.7	6.7	6.8	6.9
Public sector credit (net)	-2.8	1.7	1.2	-6.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Private sector credit	10.1	8.2	5.7	3.0	-3.4	16.0	7.9	7.9	7.8	7.7	7.6
Private capital and surplus	2.0	2.1	0.7	1.7	-1.2	3.3	1.6	1.6	1.6	1.6	1.6
Other assets (net)	2.0	2.7	-0.3	0.5	-1.7	1.1	-1.9	0.4	0.5	0.7	0.8
Liabilities to the private sector	4.2	5.2	2.8	2.3	9.5	16.9	8.0	8.1	8.2	8.2	8.2
(12-month percent change)											
<b>Memorandum items:</b>											
M2 <sup>1/</sup>	4.2	5.2	2.8	2.3	9.5	16.9	8.0	8.1	8.2	8.2	8.2
Net domestic assets	8.5	11.9	6.3	-4.2	-4.9	17.5	5.4	8.5	8.6	8.6	8.7
Public sector credit (gross)	-37.3	-10.1	21.3	2.6	39.8	0.0	0.0	0.0	0.0	0.0	0.0
Private sector credit	8.4	6.5	4.5	2.4	-2.6	14.0	7.1	7.1	7.1	7.1	7.1
Share of demand deposits in total deposits (in percent)	21.5	20.6	21.0	18.7	19.9	20.3	21.0	21.8	22.6	23.4	24.2
(In percent of GDP)											
Total deposits	66.2	65.0	63.9	63.2	86.3	88.5	89.4	90.3	91.2	92.1	93.1
Credit to private sector	83.2	82.5	82.6	82.2	101.0	101.0	101.0	101.0	101.0	101.0	101.0

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, 2015–20**  
(In percent, end-of-period)

	2015	2016	2017	2018	2019	2020
	(In percent)					
<b>Core FSIs</b>						
Regulatory capital to risk weighted assets	14.9	15.3	16.0	15.7	15.2	15.7
Non-performing loans net of provisions to capital	1.4	1.3	1.4	0.0	-0.3	-5.4
Non-performing loans to total gross loans	1.0	1.3	1.4	1.7	2.0	2.0
Return on assets	1.4	1.2	1.5	1.5	1.8	0.7
Return on equity	14.0	11.8	13.4	13.1	15.3	6.5
Interest margin to gross income	55.3	53.9	52.5	50.6	47.6	47.0
Non-interest expenses to gross income	50.1	50.0	46.9	46.4	47.7	48.6
Liquid assets to total assets	16.0	15.7	12.8	12.1	12.8	17.6
Liquid assets to short-term liabilities	39.9	39.3	33.9	34.8	37.0	47.0
<b>Sectoral distribution of loans</b>						
Domestic residents	74.6	77.5	80.7	81.2	81.7	82.0
Deposit takers	1.0	1.0	0.9	1.2	1.3	1.2
Central bank	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	2.2	2.8	2.6	2.8	2.6	2.4
General government	1.5	1.7	1.1	1.1	0.7	1.8
Nonfinancial corporations	36.4	36.3	37.8	36.7	35.8	34.0
Households	33.5	35.7	38.3	39.5	41.3	42.6
Nonresidents	25.4	22.5	19.3	18.8	18.3	18.0
<b>Additional FSIs</b>						
Capital to assets (leverage ratio)	10.2	11.4	12.5	12.5	12.7	11.8
Gross assets position in derivatives to capital	0.1	0.1	0.2	0.1	0.2	0.6
Gross liabilities position in derivatives to capital	0.8	1.3	0.9	0.7	0.4	0.4
Trading income to total income	0.0	0.0	0.0	0.0	0.0	0.0
Personnel expenses to total income	46.7	46.2	46.8	46.4	45.8	46.2
Customer deposits to total non-interbank loans	78.9	78.1	78.0	76.1	76.6	84.1

Sources: IMF Financial Soundness Indicators.

**Table 7. Panama: Summary Balance of Payments, 2016–26**  
(In percent of GDP, unless otherwise stated)

	2016	2017	2018	2019	Est.		Projections				
					2020	2021	2022	2023	2024	2025	2026
	(In percent of GDP)										
<b>Current account</b>	<b>-7.8</b>	<b>-5.9</b>	<b>-7.6</b>	<b>-5.0</b>	<b>2.3</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.7</b>	<b>-2.6</b>	<b>-2.4</b>	<b>-2.2</b>
Merchandise trade excluding Colón Free Zone, net	-16.3	-16.6	-16.7	-14.1	-8.3	-10.5	-10.8	-10.7	-10.9	-10.6	-10.8
Exports, f.o.b.	6.3	7.2	7.7	8.9	8.7	11.6	12.0	12.7	12.4	12.4	12.1
Of which: Copper	0.0	0.0	0.0	1.2	2.0	5.2	5.1	6.2	5.4	4.9	4.6
Of which: Gold	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Imports, f.o.b.	22.5	23.7	24.4	23.0	17.0	22.1	22.8	23.5	23.3	23.0	22.8
Of which: Oil	5.4	6.8	8.1	7.5	3.2	4.8	4.6	4.2	3.9	3.7	3.6
Merchandise trade from Colón Free Zone, net	2.9	3.0	2.5	2.7	3.2	2.7	2.8	2.9	2.9	3.1	3.2
Re-exports, f.o.b.	16.1	15.1	15.0	13.0	13.3	13.3	13.1	13.3	13.2	14.1	14.9
Imports, f.o.b.	13.2	12.1	12.5	10.3	10.1	10.6	10.4	10.4	10.4	11.0	11.6
Services, net	12.9	13.9	13.6	13.2	10.4	10.6	12.0	13.0	13.4	13.6	13.6
Travel, net	5.3	5.6	5.3	4.7	1.2	1.7	3.3	3.9	4.3	4.3	4.4
Transportation, net	6.5	7.2	7.4	7.7	8.0	8.1	7.8	8.1	8.3	8.3	8.3
Of which: Canal	4.1	4.5	4.6	4.8	6.5	6.0	5.4	5.6	5.5	5.3	5.2
Other services, net	1.1	1.1	1.0	0.9	1.1	0.8	0.8	0.9	0.9	0.9	1.0
Income, net	-7.3	-6.2	-7.1	-6.8	-2.9	-5.9	-6.8	-7.8	-8.0	-8.4	-8.3
Primary, net	-7.1	-6.0	-7.0	-6.7	-3.2	-6.0	-6.8	-7.6	-7.8	-8.1	-8.0
Of which: Direct investment	-5.7	-4.5	-5.2	-5.1	-0.5	-3.2	-4.6	-5.8	-6.1	-6.5	-6.1
Secondary, net	-0.2	-0.2	-0.1	0.0	0.2	0.1	0.0	-0.2	-0.2	-0.3	-0.3
Of which: Workers' remittances	-0.7	-0.6	-0.5	-0.5	-0.2	-0.4	-0.5	-0.7	-0.7	-0.8	-0.8
<b>Capital account</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial account</b>	<b>-13.2</b>	<b>-9.4</b>	<b>-9.4</b>	<b>-7.1</b>	<b>1.8</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.7</b>	<b>-2.6</b>	<b>-2.3</b>	<b>-2.2</b>
Foreign direct investment, net	-7.9	-6.9	-7.6	-5.5	-1.2	-4.0	-6.3	-7.0	-6.9	-7.0	-7.0
Of which: Reinvested earnings	-3.7	-2.9	-2.9	-3.4	0.9	-1.0	-2.3	-2.5	-2.7	-2.5	-2.8
Portfolio investment, net	-0.2	-1.1	-0.6	-4.8	-4.6	-1.1	-1.2	-1.3	-1.1	-1.0	-0.9
Financial derivatives, net	-0.1	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-6.1	0.2	-0.4	1.2	-2.9	0.0	3.5	4.5	4.4	4.6	4.7
Reserve assets, net	1.1	-1.6	-1.0	1.8	10.5	2.0	1.1	1.1	1.1	1.1	1.1
<b>Net errors and omissions</b>	<b>-5.5</b>	<b>-3.5</b>	<b>-1.8</b>	<b>-2.1</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Memorandum items:</b>											
Exports of goods and services (annual percent change)	-3.3	7.7	5.1	0.1	-29.4	26.3	11.9	12.1	7.7	9.3	8.3
Imports of goods and services (annual percent change)	-6.9	5.8	7.2	-5.3	-36.4	36.6	9.3	9.5	6.8	8.1	8.4
Oil trade balance (percent of GDP)	-3.4	-3.8	-4.4	-3.8	-1.6	-2.4	-2.3	-2.2	-2.0	-2.0	-1.9

Sources: INEC; and IMF staff calculations.

**Table 8. Panama: External Vulnerability Indicators, 2016–22**  
(In percent, unless otherwise specified)

	2016	2017	2018	2019	Est.	Projections	
					2020	2021	2022
<b>Financial indicators</b>							
Broad money (12-month percent change)	4.2	5.2	2.8	2.3	9.5	16.9	8.0
Private sector credit (12-month percent change)	8.4	6.5	4.5	2.4	-2.6	14.0	7.1
Deposit rate (6-month; in percent) <sup>1/</sup>	1.7	1.8	1.8	2.2	2.0	1.8	1.8
<b>External indicators</b>							
Merchandise exports (12-month percent change)	-9.0	6.8	6.8	-0.7	-20.6	29.4	7.7
Merchandise imports (12-month percent change)	-8.2	7.7	7.5	-7.1	-35.6	37.7	8.4
Current account balance (in percent of GDP)	-7.8	-5.9	-7.6	-5.0	2.3	-3.1	-2.9
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)	-13.2	-9.4	-9.4	-7.1	1.8	-3.1	-2.9
<i>Of which</i> : direct investment	-1.2	-4.0	-6.3	-7.0	-6.9	-7.0	-7.0
Non-Financial Public Sector external debt (in percent of GDP)	29.0	29.1	31.1	35.3	55.1	53.5	53.3
In percent of exports of goods and services <sup>2/</sup>	66.6	66.7	70.6	82.5	144.6	126.7	120.7
External interest payments							
In percent of exports of goods and services <sup>2/</sup>	9.2	9.7	7.2	7.3	8.1	10.1	8.7
External amortization payments							
In percent of exports of goods and services <sup>2/</sup>	185.9	172.9	146.5	147.9	205.7	154.8	137.1
REER, percent change (average) <sup>6/</sup>	-8.3	-7.6	-1.2	1.0	0.0	...	...
Gross international reserves at end of period							
In millions of U.S. dollars <sup>3/</sup>	4,745	3,788	3,149	4,375	9,936	11,124	11,808
In months of imports of goods and services	2.1	1.6	1.4	3.0	5.0	5.1	5.0
In percent of broad money <sup>4/</sup>	12.3	9.3	7.6	10.3	21.3	20.4	20.0
In percent of short-term external debt <sup>5/</sup>	10.9	9.8	8.1	11.9	27.9	30.9	34.2
<b>Memorandum items:</b>							
Nominal GDP	57,908	62,203	64,928	66,788	52,938	60,332	64,587
Exports of goods and services <sup>2/</sup>	25,208	27,154	28,551	28,579	20,184	25,487	28,524
Imports of goods and services <sup>2/</sup>	25,475	26,951	28,902	27,378	17,412	23,782	26,002

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 net exports of 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, 2020–26 <sup>1/2/</sup>

	2020	2021	2022	2023	2024	2025	2026
<b>Exposure and Repayments (In SDR millions)</b>							
GRA credit to Panama	376.8	1,318.8	2,260.8	2,166.6	1,860.5	942.0	117.8
(In percent of quota)	(100.0)	(350.0)	(600.0)	(575.0)	(493.8)	(250.0)	(31.3)
Charges due on GRA credit	4.0	13.2	53.4	54.6	53.8	39.9	7.3
Repurchases under the PLL	0.0	0.0	0.0	0.0	117.8	824.3	824.3
Repurchases under RFI	0.0	0.0	0.0	94.2	188.4	94.2	0.0
Debt service due on GRA credit	4.0	13.2	53.4	148.8	359.9	958.4	831.6
<b>Debt and Debt Service Ratios <sup>3/</sup></b>							
In percent of GDP							
Total external debt	201.9	192.4	196.1	196.8	194.9	193.2	191.9
External debt, public	56.9	59.1	60.5	60.3	59.1	57.3	55.6
GRA credit to Panama	1.0	3.2	5.3	4.7	3.8	1.8	0.2
Public external debt service	5.3	4.5	3.1	3.5	5.1	5.7	5.8
Debt service due on GRA credit	0.0	0.0	0.1	0.3	0.7	1.8	1.5
In percent of Gross International Reserves							
GRA credit to Panama	5.4	20.5	34.4	31.2	25.3	12.1	1.4
Debt service due on GRA credit	0.1	0.2	0.8	2.1	4.9	12.3	10.1
In percent of Exports of Goods and Services							
Total external debt service	213.8	196.1	180.9	163.8	155.3	144.6	135.9
Public external debt service	14.0	12.1	8.1	8.7	12.3	13.6	13.7
GRA credit to Panama	2.7	8.8	13.9	11.8	9.2	4.3	0.5
Debt service due on GRA credit	0.0	0.1	0.3	0.8	1.8	4.3	3.5
In percent of General Government Revenues							
Public external debt service	28.8	23.7	15.7	17.0	24.5	27.3	27.7
GRA credit to Panama	5.5	17.2	26.9	23.1	18.2	8.6	1.0
Debt service due on GRA credit	0.1	0.2	0.6	1.6	3.5	8.7	7.1
In percent of Total External Debt							
GRA credit to Panama	0.5	1.7	2.7	2.4	2.0	0.9	0.1
In percent of Total Public External Debt							
GRA credit to Panama	1.8	5.5	8.7	7.9	6.4	3.2	0.4
In percent of Total Public External Debt Service							
Debt service due on GRA credit	0.2	0.7	4.0	9.3	14.4	32.0	25.4

Sources: Panamanian Authorities, Finance Department, and IMF 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: Proposed Schedule of Reviews and Available Credit under the PLL Arrangement, 2021–22**

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
<b>Total</b>		<b>1,884</b>	<b>500</b>

Source: IMF Staff.

## Annex I. 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 (66¼ percent of GDP) to 55¼ percent of GDP in 2026. This is possible thanks to a continuous improvement in the primary balance to GDP (from a 7¾ of GDP deficit in 2020 to a ½ of GDP surplus in 2026), and to a consistently positive differential between real GDP growth and the real effective interest rate. After peaking at 15¼ percent of GDP, gross financing needs will gradually shrink until reaching 5¾ percent of GDP in 2026, slightly 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 81 percent in 2023; (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 92 percent in 2023. Nonetheless, in both scenarios debt to GDP would decline after 2023. 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 10 percent of GDP) in 2022, 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 2021-22.** The adverse scenario reflects lower nominal GDP growth in 2021–22, due to more protracted than expected effects of the pandemic (almost 4 percent less in 2021 and 1.6 percent less in 2022). In addition, an increased perception of risk raises interest rates of new debt issues by around ½ percentage point in 2021, and 1 percentage point in 2022. However, due to the temporary nature of the shock nominal growth catches up with the baseline rates from 2023 onwards, 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 2021 from 7.4 percent of GDP in the baseline to 8.8 percent in the adverse scenario, and in 2022 from 4 percent of GDP in the baseline to 4.6 percent in the adverse. From 2023, public deficit is the same as in the baseline. This implies higher gross financing needs in the adverse scenario, by US\$0.7 and 0.3 billion in 2021 and 2022 respectively. Refinancing difficulties lower the resort to medium and long-term bond

issuances by US\$1.2 billion and US\$1.6 billion in 2021 and 2022 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\$0.5 billion each year. Financing from multilaterals other than the IMF is assumed to be the same as in the baseline in 2021–22.

**4. In the adverse scenario, public debt still peaks in 2020 and follows a declining path until reaching 58 percent of GDP in 2026.** 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 deficits in 2021–22, 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 2021–22, by US\$0.7 and 0.3 billion respectively, reflecting larger deficits in the former. In 2023–24, 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 2025–26 gross financing needs would be higher again in the adverse scenario (by US\$ 0.6 billion and 1.3 billion respectively) as a result of the PLL amortization from 2025. 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 84 and 96 percent of GDP respectively, although in both cases debt would decline thereafter until reaching 77 and 89 percent of GDP in each case. Gross financing needs would exceed their 15 percent of GDP threshold only under a contingent liability shock, reaching 25 percent of GDP in 2021 but gradually coming down to 10 percent of GDP by 2026.

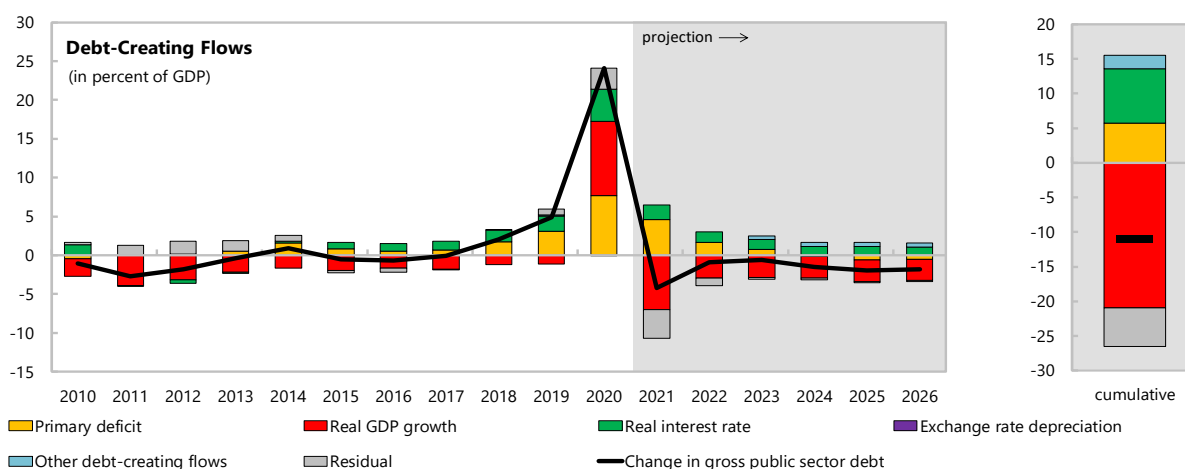
**Figure A1.1. Panama: Public Sector DSA – Baseline Scenario**  
(In percent of GDP unless otherwise indicated)

**Debt, Economic and Market Indicators <sup>1/</sup>**

	Actual			Projections						As of March 02, 2021		
	2010-2018 <sup>2/</sup>	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	36.7	42.2	66.3	62.1	61.2	60.6	59.0	57.1	55.3	EMBIG (bp) 3/ 168		
Public gross financing needs	6.3	8.1	15.3	13.3	7.3	6.0	7.5	4.7	5.6	5Y CDS (bp) 68		
Net public debt	22.4	29.4	43.8	46.6	47.5	47.3	46.2	44.6	43.1	Ratings Foreign Local		
Real GDP growth (in percent)	6.5	3.0	-17.9	12.0	5.0	5.0	5.0	5.0	5.0	Moody's	Baa1	Baa1
Inflation (GDP deflator, in percent)	3.5	-0.2	-3.4	1.8	2.0	2.0	2.0	2.0	2.0	S&Ps	BBB	BBB
Nominal GDP growth (in percent)	10.3	2.9	-20.7	14.0	7.1	7.1	7.1	7.1	7.1	Fitch	BBB-	BBB-
Effective interest rate (in percent) <sup>4/</sup>	5.5	5.2	5.0	5.3	4.4	4.3	4.1	4.2	4.1			

**Contribution to Changes in Public Debt**

	Actual			Projections						cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026		
Change in gross public sector debt	-0.5	4.9	24.1	-4.2	-0.9	-0.6	-1.5	-1.9	-1.8	-11.0	
Identified debt-creating flows	-1.0	4.1	21.4	-0.5	0.1	-0.4	-1.3	-1.7	-1.6	-5.4	
Primary deficit	0.6	3.1	7.7	4.6	1.7	0.8	-0.1	-0.6	-0.5	5.7	
Primary (noninterest) revenue and grants	20.9	18.3	18.2	19.3	19.8	20.4	20.7	20.9	21.0	122.1	
Primary (noninterest) expenditure	21.5	21.4	25.9	23.9	21.5	21.1	20.6	20.3	20.4	127.8	
Automatic debt dynamics <sup>5/</sup>	-1.6	0.9	13.7	-5.1	-1.5	-1.6	-1.7	-1.6	-1.6	-13.1	
Interest rate/growth differential <sup>6/</sup>	-1.6	0.9	13.7	-5.1	-1.5	-1.6	-1.7	-1.6	-1.6	-13.1	
Of which: real interest rate	0.6	2.0	4.2	1.9	1.4	1.2	1.2	1.1	1.1	7.9	
Of which: real GDP growth	-2.2	-1.1	9.6	-7.0	-2.9	-2.9	-2.8	-2.8	-2.7	-21.0	
Exchange rate depreciation <sup>7/</sup>	0.0	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.2	0.0	0.0	0.0	0.5	0.5	0.5	0.5	1.9	
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	0.2	0.0	0.0	0.0	0.5	0.5	0.5	0.5	1.9	
Residual, including other asset changes <sup>8/</sup>	0.5	0.8	2.7	-3.7	-1.0	-0.2	-0.2	-0.2	-0.2	-5.6	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+g\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = 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).

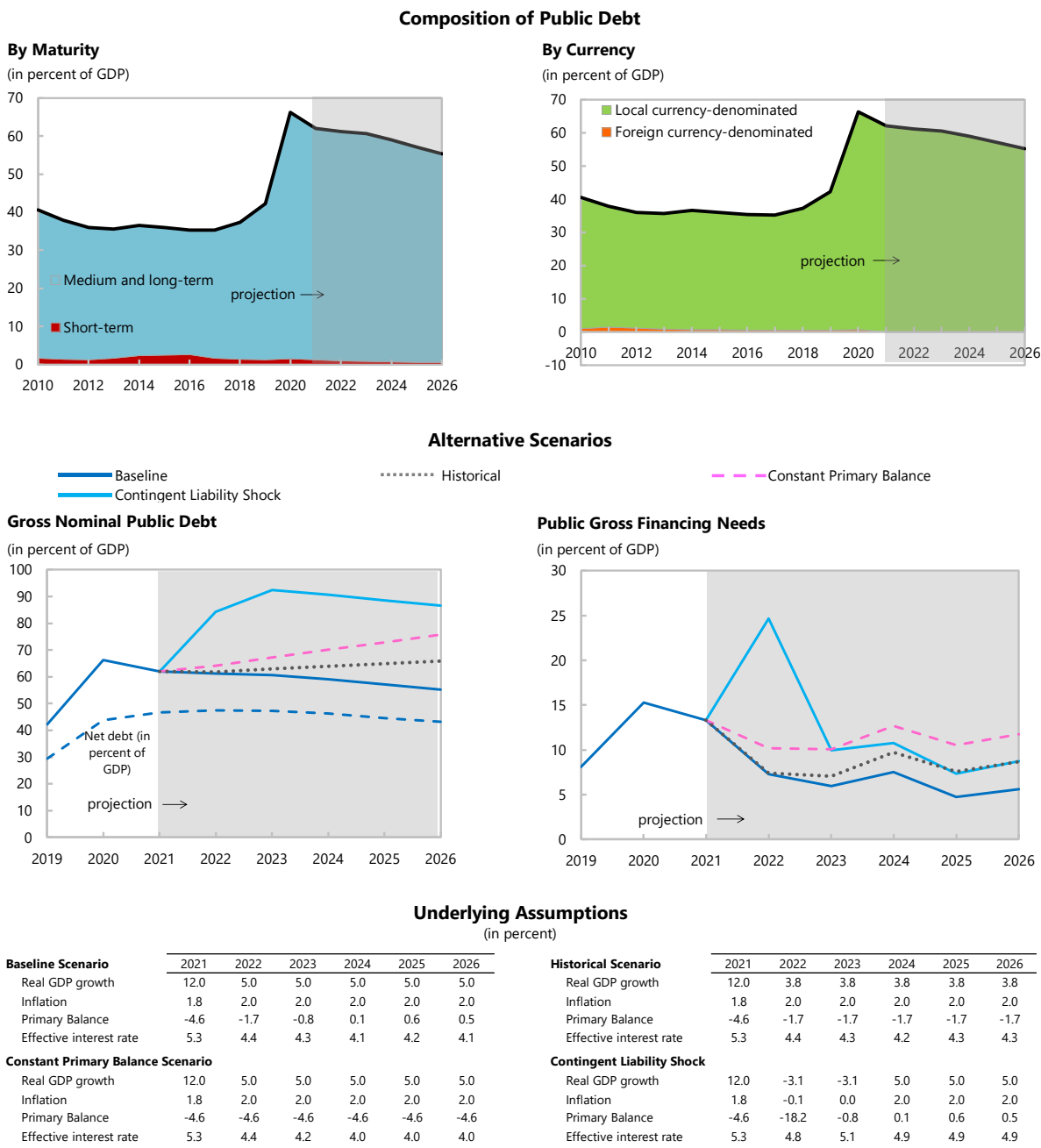
6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

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 A1.2. Panama: Public DSA – Composition of Public Debt and Alternative Scenarios**



Source: IMF staff.

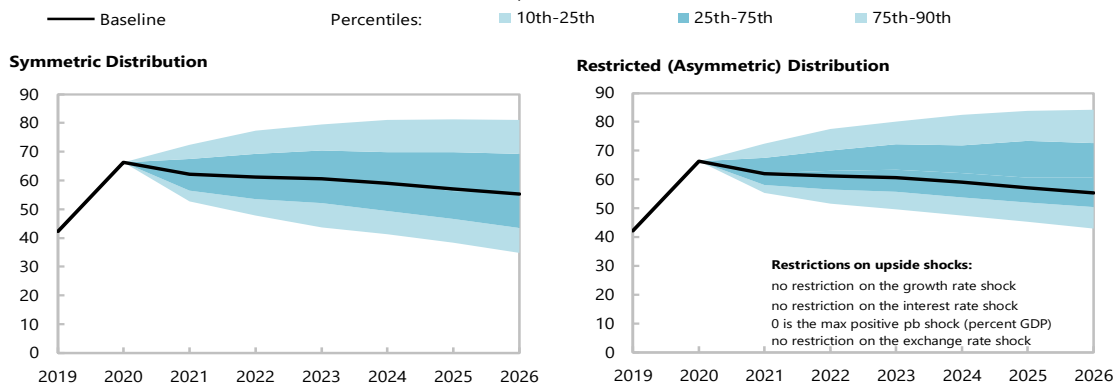
Figure A1.3. Panama: Public DSA Risk Assessment

Heat Map

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

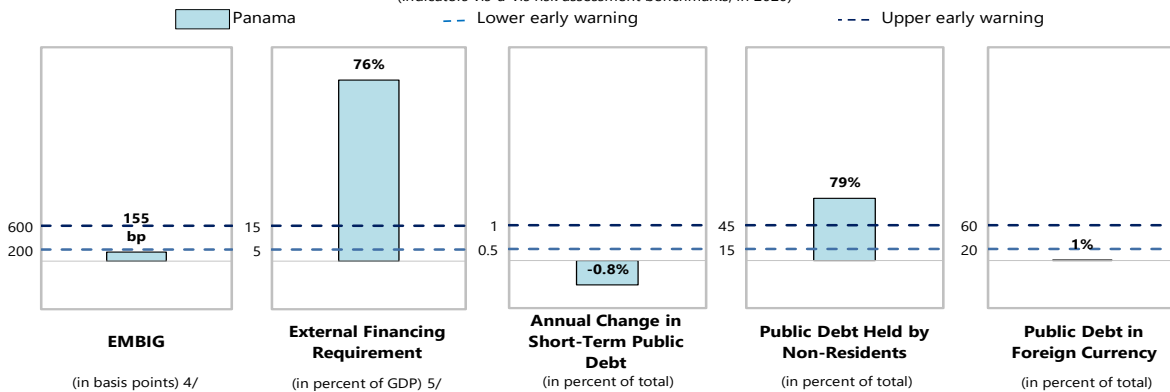
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

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

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

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

Lower and upper risk-assessment benchmarks are:

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

4/ EMBIG, an average over the last 3 months, 2-Dec-20 through 2-Mar-2021.

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.

## Appendix I. Written Communication



MINISTERIO DE  
ECONOMÍA Y FINANZAS  
Despacho del Ministro

Panama City, Panama  
July 15, 2021

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 is recovering vigorously from the COVID-19 shock. We continue to implement sound economic and financial policies while carrying out structural public policies to boost the resilience of the economy and make growth more broad-based and inclusive. After suffering the worst economic shock in a century amid pandemic-induced lockdowns, Panama's outlook for 2021 and the medium term is optimistic. We remain committed to implementing the economic and financial policies described in the Written Communication of January 5, 2021.
2. Panama experienced a deep economic contraction in 2020 spurred by the global pandemic and the domestic containment measures. The population has suffered from one of the highest COVID fatality rates in the world, while measures to curb the virus contagion adversely affected economic activity in 2020. Following a sharp contraction in Q2, the economy recovered vigorously in the second half of 2020 but not enough to compensate for the fall in the first half, with output falling by 17.9 percent in 2020, the largest economic contraction in Panama's recorded history. Amid the recession, the unemployment rate more than doubled from about 7 percent in 2019 to 18½ percent in 2020. Against the background of a modified Social and Fiscal Responsibility Law (SFRL) to prevent a pro-cyclical fiscal tightening, the fiscal deficit increased from 3½ percent of GDP in 2019 to about 10 percent of GDP in 2020, mostly due to cyclical effects on the revenue side and the denominator effect. Non-financial public sector debt rose almost 22 percentage points of GDP, to 64 percent of GDP in 2020.
3. Despite transitory improvements in the external position related to the weakness of the economy, 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. We will continue to treat the PLL as precautionary and draw on it only in the event of unforeseen exogenous shocks.

4. 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 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 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 remain committed to maintain sound economic policies and to respond appropriately to shocks that may arise. In the short run, our goal is to continue our vaccination campaign and protect the lives and livelihoods of our residents.

5. Following the SFRL, our objective is to reduce the fiscal deficit to 7½ percent of GDP for 2021 and 4 percent of GDP for next 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, but also to the withdrawal of COVID-19 related spending and improvements in revenue administration, based on the implementation of modernization strategies in the DGI and Customs. In addition, we are committed to restrain expenditure growth over the next years to facilitate fiscal consolidation. All these measures will be included in our Medium-Term Fiscal Framework, which is now under preparation and will guide the allocation of resources in the 2022 budget.

6. To strengthen Panama's financial integrity and exit the FATF grey list as soon as possible, we continue prioritizing the completion of all 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 items on the Action Plan has been recognized at the recent plenary. Since then, we have continued to urgently strengthen the AML/CFT framework in line with international standards, address the remaining deficiencies and engaging in regular discussions with our technical assistance (TA) providers in this area, including the IMF and the World Bank. 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-terrorist financing (ML/TF) risk of legal persons, as part of the corporate sector, and informing findings to 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 against AML/CFT violations.
- Ensuring adequate verification of up-to-date beneficial ownership information by obliged entities, establishing an 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 offence, and continuing to focus on ML investigations in relation to high-risk areas identified in the NRA and MER.

By end-October 2021, to we intend to 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 (structural benchmark).

7. Panama's banking system has remained resilient and well-regulated during the pandemic. To support the economy, we agreed with the banking community on a temporary moratorium on servicing bank loans, originally through end-2020 and subsequently allowed an extended period of loan modification through mid-2021, in the form of voluntary loan restructuring, grace periods, and in some cases interest rate reduction. Recognizing the importance of safeguarding financial stability, we established a Fund for Economic Stimulus (FES) in August 2020, resembling a lender of last resort (LOLR) facility as a safety net, by providing timely liquidity and credit in times of financial stress. As of mid-June 2021, no commercial banks had used the liquidity facility under the FES, underscoring the continued resilience of the banking sector. Banks have remained well capitalized and liquid. The capital adequacy ratio stood at 15.7 percent as of end-2020 (compared to 15.2 percent as of end-2019), against a minimum of 8 percent. Liquidity remained ample with short-term assets covering 64 percent of short-term deposits as of end-May 2021, twice the regulatory minimum of 30 percent. The share of modified loans had also declined significantly since its peak in August last year, reflecting higher number of affected borrowers servicing their loan installments for three consecutive months. To alleviate credit risks associated with the moratorium, an ad hoc regulatory requirement (Rule 9, 2020) was set up, requiring banks to create a provision equivalent to 3 percent of the gross modified loan portfolio. Banks had made higher provisions than required, amounting to 3.8 percent of the gross modified loan portfolio, on average, as of April 2021. We remain committed to ensuring the stability and soundness of Panama's financial system and will continually recalibrate the provisioning requirement in line with evolving circumstances.

8. Our adherence to the fiscal rule will also be possible thanks to the implementation of a 2- 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 Organic Budget Law that toughens the sanctions against the use of unappropriated resources and develops medium-term budgeting. 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 that we are making in our COVID-19

programs, both health and Panamanian Solidarity. We have also published the 2020 audit of both programs. Last but not least, we are working towards fully implementing the new Law 152 of May 8, 2020 on Public Procurement, which aims to move our practices towards best international standards, including by setting up an Observatory of Procurement and improving the informational content and presentation of the government's website on procurement.

9. 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 recent *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) by 2022. We have completed the first structural benchmark established in the PLL by strengthening the National Statistics Council to bring together data producers and data users in support of the National Statistics Plan. The key areas we will focus on include:

- Subscribing to IMF's SDDS by 2022 by enhancing the coverage, periodicity, and timeliness of data reporting. In particular, we intend to: (i) publish the Data Template on International Reserves and Foreign Currency Liquidity on the National Summary Data page (NSDP) with assistance from the IMF by September 2021 (structural benchmark); (ii) resume quarterly publication at INEC 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 by March 2022 (structural benchmark); (iii) publish metadata for SDDS related data categories on the National Summary Data Page (NSDP) and a draft of an Advance Release Calendar by December 2021; and (iv) improve the periodicity of labor market indicators (employment, unemployment and wages/earning) in line with SDDS requirement moving from semi-annual to quarterly periodicity by March 2022.
- Rebasing Panama's National Accounts to 2018 and adopting the 2008 SNA conceptual framework by June 2022. To this end, we have advanced the preliminary work by securing the assistance of an international expert.

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 semi-annual PLL reviews have held monthly 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 Alexander

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 <sup>1/</sup>	1,000	4,228.6	1,000	-	1,000	-
Official Banks' liquidity buffers <sup>2/</sup>	30	84.1	30	-	30	-

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 <sup>1/</sup>
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	Work in progress
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	New benchmark
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).	May 31, 2022	Work in progress

<sup>1/</sup> 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.

## Attachment I. Technical Appendix

**1. Under the first year of the PLL arrangement, quantitative indicative targets as defined in Table 1 of our written communication are set for end-March 2021, end-September 2021, and end-March 2022.** They include:

- **Floor on the level of the National Government liquidity coverage**, as defined in Table 1, at a minimum of US\$1,000 million, computed as deposits of the national government at Banco Nacional de Panama (BNP). National Government includes the Central Government and other public institutions. Central Government is defined as per Law 34/2008 of Social Fiscal Responsibility Law and subsequent amendments, and shall always comprise the National Assembly, Contraloria, line ministries, the Supreme Court, the Public Prosecutor's Office and the Electoral Court, as well as other units classified within the central government in the last approved State's budget. National Government deposits at the BNP will be taken directly from the detailed balance sheet of the BNP, under the item "National Government Deposits", as it is submitted to the Fund.
- **Floor on the official (state-owned) banks' liquidity buffers**, as defined in Table 1, calculated as an end-of-period ratio of the liquid assets up to 186 days to the total net deposits up to 186 days, expressed in percent and measured at end of the last completed quarter.
  - Total balance of liquid assets up to 186 days in the official banks is defined according to the liquidity report from the Superintendency of Banks of Panama (SBP), and includes a sum of the (i) legal tender in Panama; (ii) deposits in banks in Panama; (iii) deposits in banks abroad; (iv) securities (including Treasury Bills issued by the state with maturities no longer than a year, liabilities of foreign private and government agencies with AAA long-term rating, and investment grade liabilities); (v) bank liabilities payable in Panama up to 186 days; (vi) flow of debenture payments payable up to 186 days; and (vii) other liquid assets, as authorized by the SBP.<sup>1</sup>
  - Total balance of the net deposits up to 186 days in the official banks are defined as a sum of private deposits, bank deposits, and deposits of other financial institutions, as determined by the liquidity report from the SBP.

**2. As has always been the case, the Government of Panama will continue paying all its external obligations on time and with no delays.** The policy of the government has also been to pay domestic obligations on a timely manner, including commercial loans, treasury bills, notes and bonds. For the purpose of the arrangement, the payment arrears are defined as external debt-service obligations (principal and interest) that have not been paid at the time that are due as

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<sup>1</sup> Definitions of each individual components are set in the Article 75 of the Panama's Banking Law of 2008 (Executive Decree 52 from April 8, 2008).

specified in the contractual agreements, on central government and central government-guaranteed debt. Overdue debt and debt-service obligations that are in dispute will not be considered as external payment arrears.

**3. Timing of reviews.** Following the approval of this arrangement by the IMF Executive Board on January 19, 2021, the reviews are expected to be completed by no later than July 18, 2021 for the first review, January 18, 2022 for the second review, and July 18, 2022 for the third review.