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June 10, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Panama
(Preliminary)
Executive Board Meeting
June 14, 2021**

We thank staff for their clear report, as well as Mr. Bevilaqua, Mr. Fuentes and Mr. Maciá for their clear buff statement. We broadly agree with staff's appraisal and would like to add the following comment:

While the country has registered the “shock of the century”, we welcome the positive outlook. The recession has been particularly severe, at -17.9 percent in 2020. Growth should bounce back in 2021 at 12 percent, though this appears ambitious in light of the performance of the IMAE indicator in Q1 and downside risks; we note in this regard that the buff mentions a 9 percent rebound. *Could staff explain the large revision of the 2020 growth, since January (-9 percent in the PLL report), when quarterly GDP data were available until the third quarter, and if some new revisions are expected?* Overall, the country appears on track to become an advanced economy, and we note the interesting annex V on upside risks if TFP turns positive.

We strongly encourage the authorities to continue the necessary work to exit the FATF grey-list and underline the usefulness of having an appropriate conditionality in upcoming PLL review. We continue to encourage authorities, in line with FATF recommendations, to address strategic deficiencies as soon as possible. As at the time of the PLL approval, we will be vigilant to decisive progress on the action plan and look forward to an appropriate structural benchmark on AML/CFT. *Could staff provide some insights on their current thinking on this?* While we welcome that steps have been taken in the right direction, as well as the authorities' commitment to continue the implementation of the FATF action plan, progress has been slow. In addition, Panama remains also on the EU's list of non-cooperative jurisdictions for tax purposes. Lack of progress on the issue of financial integrity incurs reputational costs, but also economic ones. Finally, we agree with Mrs. Riach in her gray on the usefulness of added emphasis on the sense of urgency to address AML/FT issues in the press release.

On fiscal issues, we encourage more focus on the domestic revenue mobilization agenda and the reduction of inequalities. While we welcome that the deterioration of the fiscal

position remains in line with the amended fiscal rule, we note this is due to an absence of a nominal increase in spending. *Could staff comment on additional measures that could be taken to further support activity, given the favorable access to markets and the growth outlook?* More efforts should be put instead on the domestic resource mobilization and progressivity, as the tax revenue to GDP ratio remains very low. We agree with staff that a revision of tax expenditures and fighting tax evasion would be very helpful. We therefore welcome the authorities' work to develop a fiscal strategy, including the broadening of the tax bases, as well as to enshrine a medium-term budget framework. Finally, we welcome progress made to comply with international standards on business taxation and strongly encourage the authorities to move to a system of worldwide taxation of passive and some active incomes.

We welcome the financial resilience of the banking system and ongoing progress. We welcome the steps already taken and encourage further progress on banking sector supervision, the development of the macroprudential rules and the transition to Basel III. A close monitoring of the banking system in case of a sudden reversal in their external position and a rise in NPLs in the real sector is key.

Finally, we agree with staff's view on structural reforms but would have appreciated greater emphasis on social issues and measures to address them. Improving education, as public spending is one of the lowest in the region, and reducing informality, are paramount. Further efforts in terms of control of corruption are also important as it declined over the last decade. We fully agree on the need to address social inequities but would have also appreciated more details about the type of measures and the financing needed, in particular to reduce inequalities and develop social protection. We also note that the employment support program was only able to support the formal sector. *Could staff provide details on how to improve the social protection system?* Finally, we strongly welcome the steps taken to build resilience against natural disasters and climate change and the useful details provided in the annex X on this topic. We agree that the development of a DRS would be useful.