

**EXECUTIVE
BOARD
MEETING**

EBS/21/70
Correction 1

July 23, 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:

The attached corrections to EBS/21/70 (7/15/21) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 47

Typographical Errors

Page 44

Questions:

Mr. Santos, WHD (ext. 36629)
Mr. Chow, WHD (ext. 36638)

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

Table 1. Panama: Quantitative Indicative Targets

	March 31, 2021		September 30, 2021		March 31, 2022	
	Target	Actual	Target	Actual	Target	Actual
National Government deposits ^{1/}	1,000	4,228.6	1,000	-	1,000	-
Official Banks' liquidity buffers ^{2/}	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 ^{1/}
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).	March 31, 2022 May 31, 2022	Work in progress

^{1/} 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.