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GRAY/21/1601

June 10, 2021

**Statement by Mr. Ronicle and Mr. Chrimes on Panama
(Preliminary)
Executive Board Meeting
June 14, 2021**

Thank you to staff for the report and helpful annexes, and to Mr. Bevilaqua, Mr. Fuentes, and Mr. Maciá for their informative buff statement.

Panama has been hit hard by the pandemic. Staff’s latest estimate, consistent with the April WEO, is that GDP fell 17.9% in 2020, among the largest falls recorded by any country. Indeed, the 2020 calendar year seems to have ended significantly worse than previously expected, given that as recently as January this year – at the time of the PLL Board discussion, and after the release of initial Q3 data – staff expected a 9% contraction for 2020. While we acknowledge the exceptionally difficult circumstances and huge uncertainties facing forecasters through the pandemic, *we would welcome a clear explanation from staff for the sharp adjustment to the 2020 GDP estimate between January and the April WEO.*

Staff say that the economy is “poised for a strong rebound” in GDP growth in 2021, but note that this is subject to downside risks; proactive policy choices and timely, effective implementation can help reduce or mitigate many of these risks. We broadly agree with staff’s key policy prescriptions and welcome some encouraging signs of progress. While COVID-19 risks cannot be completely eliminated, staff conclude that vaccinations progress has helped bring down the high rate of new infections in Panama and has helped enable the economy’s reopening; continued progress on the rollout is important. Unemployment has surged, but we note staff’s positive assessment of the authorities’ labor market policies (as per Annex XI). We join staff in welcoming the recently amended fiscal rule, which recognizes the value of a credible medium-term anchor while maintaining a degree of countercyclical flexibility. We also agree that fiscal credibility hinges on improving the fiscal framework, publishing accurate fiscal balances data and strengthening budgeting, expenditure control and accounting practices. While the financial sector has been resilient to date – supported by the authorities’ actions through the pandemic – risks clearly remain, and staff’s advice on containing regulatory forbearance, adapting the ad hoc provisioning

requirement on modified loans, and conducting a risk-based examination of banks' loan portfolios once the pandemic recedes all seems sensible.

We strongly underscore the importance of Panama making rapid and substantial progress on AML/CFT deficiencies so that it can exit the FATF list of countries with strategic deficiencies as soon as possible. This could be critical to securing Panama's recovery – and has wider significance given Panama's status as a regional financial center and trade hub, with the associated money laundering and terrorist financing risks this brings. We are pleased that the authorities stress this is a top priority and are stepping up efforts, but we understand that tangible progress since Panama was added to the FATF list in 2019 has been limited. We note the call in the buff statement for additional technical assistance in this area. *Do staff see a role for the IMF in providing such technical assistance?* In addition, as part of the PLL review, we look forward to proposals from staff on how the IMF can strengthen progress – potentially including some form of conditionality, as suggested by several Board members in the January discussion. For completeness and to ensure no room for misinterpretation, we wonder whether the draft press release, which states that at its February 2021 Plenary, the FATF acknowledged actions taken by the authorities but deemed progress insufficient to exit the list, should also include a line recognizing that “the FATF noted the expiry of Panama's ‘action plan’ and encouraged Panama to address its strategic deficiencies as soon as possible.” *We would welcome staff views on amending the press release.*

Other structural challenges – inequality and climate change in particular – will also need to be addressed for Panama to deliver on its economic potential over the medium term. Annex X provides some brief but helpful coverage on building resilience to natural disasters and climate change. We look forward to more detailed coverage in future – including potentially through a Climate Change Policy Assessment and/or a Disaster Resilience Strategy. Annex XII also offers some useful observations on improving productivity through progress on the business climate, innovation and governance, but also highlights the importance of further action to reverse widened socio-economic gaps and increased poverty.