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June 10, 2021

**Statement by Ms. Senich on Panama
(Preliminary)
Executive Board Meeting
June 14, 2021**

We thank staff for the detailed report and Mr. Bevilaqua, Mr. Fuentes, and Mr. Maciá for the informative Buff statement. After the largest economic contraction in Panama's recorded history of 18 percent of GDP in 2020, we welcome that growth is projected to rebound by 12 percent in 2021. The authorities will need to undertake institutional reforms and improve human capital if they are to overcome the challenges of rising poverty levels, high unemployment and inequality, and growing sovereign debt. **We broadly agree with staff's analysis and offer the following comments for emphasis.**

We welcome that Panama's amended Social and Fiscal Responsibility Law (SFRL) provides a credible pathway to reducing Panama's public sector debt, while raising the caps on near-term spending should avoid damaging the nascent recovery. However, the declining debt path is subject to significant risks including an uncertain interest rate path and lower-than-expected growth should the country experience another surge in infections. Should growth be below expectations we support the authorities' contingency plans to restrain expenditures on items with lower multipliers. We agree with staff that increasing the tax revenue to GDP ratio will be an important part of achieving the targets under the SFRL and support the recommendation to phase out tax expenditures, increase tax progressivity, and lower tax evasion.

Panama's banking sector continues to be resilient. Bank lending declined only 2 percent while capital adequacy improved, loan-loss provisions rose, and measures of liquidity remained resilient. The report did not address how NPLs may change once bank servicing moratoria end, however, nor how this could impact the broader financial industry in Panama. *Staff comments are welcome.* The creation of the Fund for Economic Stimulus (FES) appears to have helped fill the role of lender-of-last-resort in the absence of a monetary authority. We note that the stimulus program of the FES has seen significant take-up while the FES's

liquidity line has not been drawn on. *Could staff comment on whether there are concerns that drawing on the line would stigmatize the drawing bank?*

We strongly urge the authorities to make the necessary progress to complete its FATF action plan as soon as possible. We are concerned by the slow pace of progress on reforms to its AML/CFT regime that would enable Panama to exit FATF's grey-list, but we welcome the authorities' high-level commitment to implement its FATF action plan. Exiting the grey-list will help safeguard the country's correspondent banking relationships, as well as enhance confidence in Panama's role as a regional financial center.

We commend the authorities' effort to protect against the downside risks of climate change. Panama will need to continue to boost its climate resilience, which will be critical given the importance of the canal to the country's economy and its vulnerability to severe storms, flooding, and drought. We appreciate the information provided in Annex X and agree that the authorities would benefit from undertaking a Climate Change Policy Assessment (CCPA) and from preparing a Disaster Resilience Strategy. *Could staff comment on their views as to whether Panama would be a good candidate to undertake a CCPA in the near term?*