

**EXECUTIVE
BOARD
MEETING**

SM/21/80
Supplement 1

May 25, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Panama—Staff Report for the 2021 Article IV Consultation—Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Monday, June 14, 2021
Publication:	Not yet decided*
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) Ms. Franca Domingues, WHD (ext. 38052)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—European Investment Bank, Food and Agriculture Organization, Inter-American Development Bank, United Nations Development Programme, 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 Secretary's Department has not received a communication from the authorities indicating that they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.**



PANAMA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

May 24, 2021

Prepared By

Western Hemisphere Department

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FUND RELATIONS

(As of April 30, 2021)

Membership Status: Joined March 14, 1946; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	376.80	100.00
Fund holdings of currency	699.20	185.56
Reserve Tranche Position	54.41	14.44

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	197.01	100.00
Holdings	120.72	61.28

Outstanding Purchases and Loans:

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PLL	Jan 19, 2021	January 18, 2023	1,884.00	0
Stand-By	June 30, 2000	March 29, 2002	64.00	0
EFF	December 10, 1997	June 29, 2000	120.00	40

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	April 15, 2020	May 15, 2020	376.80	376.80

Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	2021	2022	2023	2024	2025
Principal			94.20	188.40	94.20
Charges/Interest	<u>3.00</u>	<u>4.00</u>	<u>3.89</u>	<u>2.34</u>	<u>0.47</u>
Total	<u>3.00</u>	<u>4.00</u>	<u>98.09</u>	<u>190.74</u>	<u>94.67</u>

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not applicable

Safeguards Assessment

A first-time safeguards assessment of the National Bank of Panama (NBP), conducted in connection with the RFI purchase on April 15, 2020, was completed in September 2020. The assessment found strong institutional arrangements, including with respect to BNP's governance and control environment, as well as transparency and accountability practices. However, the NBP should enhance its investment practices, and the authorities should finalize the framework implementing the Fund for Economic Stimulus (FES), including on aspects of its decision-making processes and operational modalities.¹

Non-Financial Relations

Exchange Rate Arrangement

Panama uses the U.S. dollar as the primary means of payment in the local economy. Its national currency (balboa) is issued in the form of coins only and serves as a unit of account. The exchange rate of the balboa is fixed at 1 balboa per U.S. dollar. Panama has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

Last Article IV Consultation

The 2020 Article IV consultation was concluded on April 24, 2020. Panama is on the standard 12-month consultation cycle.

Financial Sector Assessment Program (FSAP)

A first-time FSAP was concluded in September 2011. It confirmed the banking sector's strength and resilience to potential shocks, noting nonetheless that data gaps prevent a full analysis of macro-financial linkages. It concluded that the regulatory framework for banks was broadly adequate, but the regulation of nonbanks had important shortcomings. It recommended to build the capacity to monitor systemic risks and introduce a financial safety net, including a facility aimed at addressing temporary liquidity shortfalls and a limited deposit insurance fund.

Technical Assistance

Panama is a large recipient of technical assistance (TA) directly through the Fund or CAPTAC-DR. Assistance in the fiscal area included budget execution and control; general diagnostic of the tax system, including tax exemptions; and revenue administration reform. More recently, an STA mission in the area of financial sector focused on improving monetary and financial statistics. Support was provided with in topics relating to national accounts and real sector statistics.

Resident Representative

Metodij Hadzi-Vaskov (based in Guatemala) is the Regional Resident Representative for Central America, Panama and the Dominican Republic.

¹ The legal framework for the FES is in progress as some adjustments to the Trust and By-Laws are needed.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of February 28, 2021)

World Bank: <https://www.worldbank.org/en/country/panama/overview>

Inter-American Development Bank: <https://www.iadb.org/en/countries/panama/overview>

Development Bank of Latin America (CAF): <https://www.caf.com/en/countries/panama/>

Central American Bank for Economic Integration: <https://www.bcie.org/en/member-countries/regional-non-founding-members/republic-of-panama>

MAIN WEBSITES OF DATA

National Institute of Statistics and Census (<http://www.inec.gob.pa/>)

National accounts

Consumer price index

Monthly indicator of economic activity (IMAE)

Balance of payments

International reserves

Exchange rates

Labor and employment

Household income and expenditure survey

Poverty and inequality

Ministry of Economy and Finance (<https://www.mef.gob.pa/>)

Fiscal accounts

Central government budget

Superintendency of Banks (<https://www.superbancos.gob.pa/en>)

Balance sheets and income statements

Financial soundness indicators

Interest rates

Monetary and financial indicators

Panama Canal Authority (<https://www.pancanal.com/>)

Balance sheets and income statements of Panama Canal

Performance indicators for Panama Canal

STATISTICAL ISSUES

(As of May 11, 2021)

I. Assessment of Data Adequacy for Surveillance

General: Data provided to the Fund has some shortcomings but is broadly adequate for surveillance. The accuracy, timeliness, and publication of economic statistics have improved, but weaknesses in national accounts, government finance, and balance of payments statistics need to be addressed.

Real Sector: The timeliness of real sector data provision has improved; however, data continues to be subject to sizable revisions. After the change of the base year of the national accounts to 2007, the rebased GDP from the production approach has been published on an annual and quarterly basis both at current prices and as chained volumes. Annual GDP series from the expenditure and income approaches are available in current prices for 2007-18. Quarterly data from the production approach are available until 2020Q4 and from the expenditure approach until 2020Q3. The monthly economic activity index has benefited from the use of administrative source data and the correct implementation of statistical techniques, such as benchmarking and seasonal adjustment. The IMF national accounts technical assistance (TA) has provided support to improve the compilation of national accounts statistics, including input-output tables, quarterly GDP, institutional sector accounts, and employment matrices. Seasonally adjusted quarterly GDP is not currently available, and a project is underway to develop it. A new benchmark compilation to rebase the national accounts series from 2007 to 2018 is under development, but progress has been slow. The consumer price index (2013=100) is compiled monthly and with an envisaged timeliness of 15 days following the reference month, which is an improvement over the e-GDDS encouraged timeliness of two months, based on the 2007/08 household income and expenditure survey (HIES). A new HIES was collected during 2017/18, and a rebasing of the CPI is expected to be started during 2021. The producer price index (2016=100) is compiled and published quarterly. In addition, IMF TA has been provided to develop updated annual and quarterly producer, export, and import price indices, and support the development of annual economic surveys to non-financial enterprises. The National Institute of Statistics and Census (INEC) is receiving support from the World Bank to fund TA on national accounts.

Government Finance Statistics: Further efforts would improve the quality of fiscal data in support of surveillance. Since January 2018, the authorities have received five TA missions and attended regional training workshops, from CAPTAC-DR to assist in updating GFS and Public Sector Debt Statistics (PSDS) to best international standards for decision making. FAD has provided TA in the area of public accounting, including implementation of government accounting reforms and the practical application of the accounting policies established in the International Public Sector Accounting Standards (IPSAS), an important step toward improving fiscal transparency. The authorities also started publishing information on liabilities derived from the turnkey projects and contingent liabilities.

The authorities launched a new platform for centralized management of public sector financial information (Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa, ISTMO), which is expected to further help enhance transparency and efficiency.

Panama has reported budgetary central government and local government data time series with annual information from 2014 to 2018 to STA for publication in the GFS Yearbook. However, these data are limited to revenue and expenditure data with no financing or debt data yet reported. Panama started publishing fiscal and debt data on a regional database hosted by the Central American Monetary Council (CMCA). INEC has been responsible for the compilation, but primary data is generated within the MOF. MOF and INEC are encouraged to improve coordination to boost the use of data compiled for analysis and decision making.

More progress is expected in improving fiscal tables, including public sector debt data. Currently, the Panama Canal Authority (ACP) and three public enterprises are excluded from the nonfinancial public sector (NFPS) accounts and public debt.

Monetary and Financial Statistics: Panama regularly reports monetary data for depository corporations using the standardized report forms (SRFs) for publication in the International Financial Statistics. Panama reports Financial Soundness Indicators (FSIs) to STA on a regular (quarterly) basis with data beginning in 2005. The authorities started using the aggregate housing price index, collected by a contractor. Data gaps still prevent a deeper analysis of systemic risks as the authorities do not collect adequate data on commercial real estate prices, loan write-offs, loan-to-value ratios, and leverage indicators for households and corporates, as there is no mechanism to monitor debtor's income and value of the acquired property objects after the loan has been granted. Panama reports data on several series indicators of the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Balance of Payments: Panama disseminates quarterly balance of payments and international investment position (IIP) data in the BPM6 format, with a timeliness of about one quarter exceeding eGDDS recommendations. Data are subject to revisions and revised estimates in key trade and investment data may result in substantial revisions of the current account of the balance of payments. The review cycle is predetermined and stable. While users are informed whether data are preliminary or revised, the review cycle is not public nor are the causes of the review explained. These revisions may reflect improvements in coverage, but they also suggest that there is room for improvement in quality control procedures. Data on outward FDI and repatriation of profit and dividends from these investments are only collected from the financial private sector. Official statistics may underestimate inward portfolio investment. The Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS) are conducted timely.

II. Data Standards and Quality

Panama has participated in the IMF's General Data Dissemination System (GDDS) since December 2000. With STA assistance, in October 2018, Panama implemented the recommendations of the Enhanced General Data Dissemination System (e-GDDS) by publishing critical data through the National Summary Data Page (NSDP). A ROSC –data module was published in October 2006. As the Fund resumed ROSCs, Panama received the first ROSC mission as a follow-up to the 2006 exercise, which was published in February 2021. The 2021 ROSC finds that Panama has a well-developed macroeconomic statistical system and the government recognizes the importance of good statistics for policy and investment decisions, and includes recommendations for Panama to further adhere to international best practices and enhance the analytical usefulness of Panama's statistics.

Table 1. Panama: Common Indicators Required for Surveillance
(as of May 11, 2021)

	Date of Latest Observation	Date Received	Frequency of Data⁶	Frequency of Reporting⁶	Frequency of Publication⁶
Exchange Rates	2/2021	3/2021	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	3/2021	4/2021	M	M	M
Reserve/Base Money	3/2021	4/2021	M	M	M
Broad Money	3/2021	4/2021	M	M	M
National Bank of Panama Balance Sheet	3/2021	4/2021	M	M	A
Consolidated Balance Sheet of the Banking System	3/2021	4/2021	M	M	M
Interest Rates ¹	1/2021	3/2021	M	M	M
Consumer Price Index	3/2021	4/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ² – General Government ³	12/2020	4/2021	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing ² –Central Government	12/2020	4/2021	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁴	12/2020	4/2021	M	M	M
External Current Account Balance	12/2020	4/2021	Q	Q	Q
Exports and Imports of Goods and Services	12/2020	4/2021	Q	Q	Q
GDP/GNP	2020	1/2021	Q	Q	Q
Gross External Debt	12/2020	4/2021	Q	Q	Q
International Investment Position ⁵	12/2020	4/2021	Q	Q	Q

Source: IMF staff

1/Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

2/ Foreign, domestic bank, and domestic nonbank financing.

3/The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

4/ Including currency and maturity composition.

5/Includes external gross financial asset and liability positions vis-à-vis nonresidents, including of offshore bank.

6/Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).