

SU/23/26

February 23, 2023

**The Acting Chair's Summing Up  
Panama—2022 Article IV Consultation  
Executive Board Meeting 23/12  
February 22, 2023**

Executive Directors agreed with the thrust of the staff appraisal. Panama witnessed a strong post- pandemic economic recovery, supported by a rebound in the global economy. However, the outlook remains uncertain, with risks of new external shocks, vulnerabilities from a prolonged inclusion in the Financial Action Task Force (FATF) grey list, and possible disruptions to copper mining activities following delays in reaching a new mining agreement. Looking ahead, Directors concurred that policies should focus on rebuilding buffers and ensuring the convergence of Panamanian income levels with those in advanced countries continues. While welcoming the recent progress, they underscored the critical importance of prioritizing an exit from the FATF grey list at the earliest date possible by expeditiously addressing the remaining deficiencies in the AML/CFT regulatory framework.

To ensure debt sustainability in the medium term, Directors highlighted the importance of further reducing the fiscal deficit, in accordance with the fiscal rule. They agreed that tax revenue will need to increase to sustainably reduce the fiscal deficit while preserving social spending and creating room for more education spending. In this context, Directors stressed the importance of improving tax and customs collection efficiency; broadening the tax base by reducing exemptions, deductions, and tax expenditures; and addressing the deficits in the defined-benefit pension component of the social security system.

Directors noted that capital adequacy and liquidity indicators in the banking sector are well above regulatory minima. As Panama does not have a lender of last resort and deposit insurance, they emphasized the importance of keeping the banking system well capitalized and liquid. In this context, they highlighted the need for continued intensive supervision and monitoring and expanding the macroprudential policy toolkit to mitigate future asset quality and liquidity risks. They also urged AML/CFT regulation and supervision to be applied to Fintech companies.

Directors noted that Panama's past income convergence to advanced-economy levels was driven by an unprecedented construction boom. To sustain convergence, Directors underscored the necessity for other productive sectors to take over, and for governance and human capital to improve. They also called for structural reforms to enhance innovation, improve critical infrastructure, and strengthen labor policies to bolster competitiveness and

growth potential. Directors encouraged the authorities to work toward SDDS subscription, and stressed the importance of more timely statistics, which would reinforce transparency.

It is expected that the next Article IV consultation with Panama will be held on the standard 12-month cycle.