

The contents of this document are preliminary and subject to change.

GRAY/23/3801

February 17, 2023

**Statement by Ms. Medearis and Mr. Sturm on Panama
(Preliminary)
Executive Board Meeting
February 22, 2023**

We thank staff for the high-quality reports and Mr. Bevilaqua, Mr. Fisher Hogan, and Mr. Fuentes for their informative Buff statement. Panama's generally sound policies have allowed the country to rebound strongly from the pandemic shock and deep recession as well as more recently respond to spillovers from Russia's war against Ukraine. However, the authorities will need to tackle medium-term challenges to meet the objectives of converging with advanced economies while completing overdue reforms. **We broadly support staff's appraisal and recommendations and would like to highlight the following comments.**

We strongly support staff recommendations on fiscal policies, particularly the focus on the need to improve domestic resource mobilization. We commend the authorities for their progress in bringing the deficit within the social and fiscal responsibility law. Staff make a strong case for reversing the trend of declining revenue-to-GDP to finance social needs, including human capital development, while maintaining fiscal and debt sustainability. We also urge the authorities to better target cost-of-living assistance through direct transfers to the most vulnerable households, and encourage them to request any needed capacity development assistance in this regard. *Could staff provide an update on the status of various food and fuel subsidies as well as any continued social tensions?*

We highlight financial stability risks as domestic interest rates are expected to rise in the context of tighter global financial conditions. We also note the potential negative impact on bank balance sheets from high exposure to the real estate sector, and we encourage close monitoring of these risks by the authorities. *What contingencies are the authorities considering in case such risks materialize?*

We underscore the continued urgency of addressing AML/CFT framework deficiencies and closing data gaps. We highlight staff advice to implement identified measures to

address deficiencies in its AML/CFT framework, a holdover issue from Panama's completed Precautionary and Liquidity Line (PLL). We welcome the authorities' effort to complete their FATF action plan as outlined in the Buff statement. We express strong regret that there continue to be delays in releasing data and subscribing to SDDS, which the PLL identified as a weakness. We urge the authorities to continue their efforts to subscribe to the SDDS as soon as practicable.

We highly appreciate staff's analytical work on structural reforms to raise potential growth and improve total factor productivity in Panama. In this context, we underscore staff's excellent Selected Issues paper, which persuasively conveys the need to improve human capital and governance to support convergence with advanced economies and further steps toward raising income levels in the country.