

GREEN/20/13

March 20, 2020

**Green Statement from Mr. Mouminah, Mr. Alkhareif and Mr. Rawah on
Panama—Staff Report for the 2020 Article IV Consultation (SM/20/64)**

We thank staff for the well-focused set of reports. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

1. **We take positive note of Panama's impressive economic growth over more than two decades, reflecting the notable socioeconomic gains.** Here, we are encouraged that income per capita is the highest in Latin America and poverty and inequality have declined over the past years. That said, economic growth has slowdown and external risks could weigh on economic prospects. Therefore, we encourage the authorities to push forward with the implementation of structural reforms to achieve higher and more inclusive growth.

2. **To this end, we underscore the importance of pursuing a gradual fiscal consolidation path, while prioritizing growth-friendly spending.** In this context, we encourage the authorities to continue improving the capacity of tax and customs administrations while revisiting tax exemptions to reverse the course of revenues underperformance. Also, we echo staff's view regarding the need to contain current spending growth to help in creating space to promote social and infrastructure spending. In addition, the pension system reforms should be considered to avoid undue fiscal pressures while the fiscal framework should be strengthened, including in budget execution, to curb future accumulation of arrears.

3. **We welcome the financial sector reforms to ensure banking resilience.** Here, we take positive note that the banking sector is well-capitalized, profitable and that NPL ratio is low and is well-provisioned. Also, we join staff in welcoming the authorities' efforts aimed at aligning liquidity-related prudential requirements with Basel III and the publication of the Financial Stability Report. In light of the remaining vulnerabilities, including from real estate market and the raise in household indebtedness, we encourage the authorities to closely monitor these developments and continue improving the financial sector oversight and upgrade the regulatory toolkit.

4. **Finally, further advancing structural reform agenda is important.** In this connection, we encourage the authorities to put further emphasis on human capital development, especially through upgrading the education system, as well as improving productivity, investment climate, competitiveness and labor market flexibility. Strengthening governance and the effectiveness of AML/CFT framework is also important. On the latter, exiting the FATF grey list should be a

priority. Here, while it is disappointing to note that Panama has returned to the FATF grey list, we positively note the authorities' ongoing efforts to improve the financial-sector integrity and their plan to advance the necessary reforms in line with the FATF's recommendations. With these remarks, we wish the authorities further success.