

**LAPSE OF
TIME**

SM/20/64
Correction 1

April 16, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Panama—Staff Report for the 2020 Article IV Consultation**

Board Action: The attached correction to SM/20/64 (3/10/20) has been provided by the staff:

Evident Ambiguity

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Questions: Mr. Santos, WHD (ext. 36629)
Mr. Chow, WHD (ext. 36638)



PANAMA

STAFF REPORT FOR THE 2020 ARTICLE IV CONSULTATION

March 9, 2020

KEY ISSUES

The Staff Report was prepared by a staff team of the IMF for the Executive Board's consideration on March 24, 2020. The staff report reflects discussions with the Panamanian authorities during February 4-17, 2020 and is based on the information available as of February 21, 2020. It focuses on Panama's near and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic and resulted in unprecedented strains in global trade, commodity and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Panama and globally.

- **Background.** After 25 years of impressive performance with the economy expanding at 6 percent annually, growth slowed below 4 percent in 2018–19, with inflation falling below zero. A new government took office in July 2019 providing a fresh impulse for reforms. However, expenditure tightening after a shortfall in revenues kept the deficit at 3.1 percent of GDP in 2019, while previously unrecorded arrears of over 2 percent of GDP were uncovered. Panama returned to the Financial Action Task Force (FATF) grey list in June 2019, with limited impact on the economy thus far. Credit growth decelerated reflecting weak demand, while the current account deficit improved to 6½ percent of GDP in 2019.
- **Outlook and Risks.** Growth is expected to recover to 4.8 percent in 2020. However, the balance of risks is tilted to the downside. Domestic risks include setbacks in resolving fiscal policy imbalances and complying with the FATF action plan to exit the grey list. External risks include rising protectionism, weak global growth, coronavirus, sharp rise in risk premium that exposes vulnerabilities, an intensification of geopolitical tensions, cyberattacks, natural disasters and extreme climate events.
- **Policy Advice.** A gradual fiscal consolidation can address the large fiscal imbalances while being mindful of the weak economy. Tax and customs administration reforms are needed to address the shortfall in revenues and provide room for public investment and social spending. Further strengthening the fiscal framework transparency and