INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/245

PANAMA

August 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PANAMA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Panama, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 28, 2025 consideration of the staff report that concluded the Article IV consultation with Panama.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 28, 2025, following discussions that ended on June 23, 2025, with the officials of Panama on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 14, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Panama.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/279

IMF Executive Board Concludes 2025 Article IV Consultation with Panama

FOR IMMEDIATE RELEASE

- The economy is recovering from the impact of the Cobre Panamá mine closure. GDP growth is projected to increase to 4.5 percent in 2025 as the impact of the mine closure diminishes and non-mine economic sectors continue to grow.

- Post-pandemic inflationary pressures have abated. Inflation has turned negative, dropping to -0.2 percent year-on-year at the end of 2024 and further down to -0.7 percent year-on-year by May 2025.

- Full implementation of the spending reduction plan approved by the cabinet would bring the 2025 fiscal target within reach.

- The pension reform is a welcome adjustment that addresses the financial shortfalls of the defined benefit scheme.

Washington, DC – August 25, 2025: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Panama.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.[2]

GDP growth slowed from 7.3 percent in 2023 to 2.9 percent in 2024, mainly due to the closure of the Cobre Panamá copper mine. The mine directly and indirectly accounted for about 5 percent of GDP and 2 percent of employment. Unemployment increased from 7.4 percent in August 2023 to 9.5 percent in October 2024. However, spillovers to the rest of the economy appear to have been limited. Non-mining GDP growth accelerated in the course of 2024 as the services sector continued its post-pandemic boom. From the expenditure side, strong capital formation has been driving growth. Following the 2023-24 transit restrictions caused by the El Niño-triggered drought, the Panama Canal returned to operating at full capacity in September 2024. Inflation has declined sharply from its mid-2022 peak, to 0.2 percent year-on-year at end-2024, and has since turned negative, reaching -0.7 percent year-on-year in May 2025. Despite prompt corrective measures by the government that came into office in

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be published shortly on the www.imf.org/Panama page.

July 2024, the 2024 fiscal deficit reached 7.4 percent of GDP, up from a revised 3.9 percent of GDP in 2023. Taking into account one-off factors, accounting changes and the impact of the economic cycle, the deterioration in the underlying fiscal balance is estimated at 0.8 percentage points of GDP.

The economy is expected to continue its recovery, but the outlook is subject to significant downside risks and a high degree of uncertainty. GDP growth is projected to increase to 4½ percent in 2025 as the impact of the mine closure dissipates. Non-mining GDP growth is expected to decelerate due to fiscal consolidation, but overall GDP growth will increase due to base effects. Over the medium term, GDP growth is projected at about 4 percent per annum. This is lower than during the pre-pandemic boom years, as the construction sector and associated FDI inflows are unlikely to provide a similar contribution as during those years, and growth in the employment to population ratio is expected to slow. Downside risks to the outlook include the loss of investment-grade status, delays in implementing the reform agenda, natural disasters, and heightened global policy uncertainty. On the upside, successful implementation of the government's ambitious reform package—including ongoing mine negotiations—could bolster the outlook.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed that Panama's vibrant private sector and sound economic policies have led to a rapid convergence of its income level with that of advanced economies. Private sector imbalances have been modest, and inflation has been low and stable. While welcoming the rebound in Panama's economy from the closure of the Cobre Panamá mine, Directors considered that downside risks remain significant amid high global policy uncertainty and emphasized that being a dollarized economy adds to the importance of maintaining fiscal sustainability and financial stability.

Directors concurred that the government's fiscal targets embedded in the revised Social and Fiscal Responsibility Law path to reduce the non-financial public sector fiscal deficit to 2 percent of GDP by 2029 are appropriate. They welcomed the spending reduction plan approved by the cabinet to meet the 2025 fiscal target and encouraged its full implementation. Directors considered that the authorities' strategy to revisit spending mandates and commitments would enhance budget flexibility and capacity to absorb shocks and pursue new priorities.

Directors agreed that the pension reform is a welcome adjustment that addresses the financial shortfalls of the defined benefit scheme and improves Panama's social safety net. They noted that further adjustments of the pension system will be needed in the future to ensure long-term sustainability.

Directors agreed that while the banking system remains sound, well capitalized and liquid, further improvements are needed to the bank resolution framework. They welcomed the

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[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

authorities’ consideration of a financial safety net and their progress in implementing key recommendations from the 2023 FSAP, as well as the continued commitment to implementing effectively the AML/CFT standards.

Directors concurred that further improvements in governance and education are important. Addressing income inequality requires targeted interventions in rural areas, focusing on infrastructure and education to reduce disparities with urban regions. Directors noted that ongoing efforts to improve the availability of macro-financial data will support transparency and policy making and encouraged the authorities to continue working toward SDDS subscription.

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

Table 1. Panama: Selected Economic and Social Indicators, 2022–30

Population (millions, 2024)	4.5	Poverty line (percent, 2019)	21.5
Population growth rate (percent, 2024)	1.3	Adult literacy rate (percent, 2019)	95.7
Life expectancy at birth (years, 2022)	76.2	GDP per capita (US$, 2024)	19,169
Total unemployment rate (Oct, 2024)	9.5	IMF Quota (SDR, million)	376.8

				Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
				(Percent change)					
Production and Prices									
Real GDP (2007 prices)	10.8	7.4	2.9	4.5	4.0	4.0	4.0	4.0	4.0
Consumer price index (average)	2.9	1.5	0.8	0.4	2.0	2.0	2.0	2.0	2.0
Consumer price index (end-of-year)	2.1	1.9	-0.2	0.7	2.0	2.0	2.0	2.0	2.0
Output gap (% of potential)	-1.0	0.0	-2.0	-1.0	0.0	0.0	0.0	0.0	0.0
Demand Components (at constant prices)									
Public consumption	2.9	3.4	22.2	-0.5	0.8	-0.6	-0.1	1.5	1.4
Private consumption	3.0	4.8	-0.9	4.5	4.0	4.0	4.0	4.0	4.0
Public investment	11.9	85.6	0.1	-20.6	9.2	14.4	10.2	9.2	6.1
Private investment	52.3	8.5	-0.9	4.5	4.0	4.0	4.0	4.0	4.0
Exports	22.3	5.1	-9.6	7.4	1.6	1.6	3.2	3.1	3.0
Imports	24.0	7.1	-15.8	6.7	4.2	4.4	3.7	3.5	2.8
Financial Sector									
Private sector credit	6.4	3.5	3.9	5.0	6.1	6.1	6.1	6.1	6.1
Broad money	-1.9	3.3	5.4	5.0	6.1	6.1	6.1	6.1	6.1
Average deposit rate (Percent)	1.8	3.8	4.3	3.4	3.4	3.4	3.4	3.4	3.4
Average lending rate (Percent)	7.7	8.5	8.7	6.5	6.5	6.5	6.5	6.5	6.5
				(In percent of GDP)					
Saving-Investment Balance									
Gross domestic investment	35.8	37.7	36.8	39.0	39.7	40.9	41.3	41.5	41.8
Public sector	2.9	5.0	5.0	3.8	4.0	4.4	4.6	4.9	5.0
Private sector	39.1	38.2	31.8	35.3	35.7	36.5	36.6	36.6	36.8
Gross national saving	35.9	34.6	38.7	38.1	37.9	38.4	38.8	39.0	39.3
Public sector	2.2	1.5	-1.3	1.1	2.2	3.1	4.2	5.0	5.0
Private sector	33.6	33.1	40.0	37.0	35.7	35.3	34.6	33.9	34.2
Public Finances 1/									
Revenue and grants	19.9	20.5	18.5	20.5	20.8	21.2	21.8	22.4	22.7
Expenditure	22.9	23.6	25.2	23.6	23.1	23.1	23.1	23.2	22.9
Current, including interest	17.4	17.6	19.3	18.8	18.3	17.7	17.2	17.0	16.7
Capital	5.5	6.0	6.0	4.8	4.9	5.4	5.8	6.2	6.1
Overall balance, including ACP	-3.1	-3.1	-6.7	-3.0	-2.3	-1.8	-1.3	-0.7	-0.2
Overall balance, excluding ACP	-4.0	-3.9	-7.4	-4.0	-3.5	-3.0	-2.5	-2.0	-1.5
Total Public Debt									
Debt of Non-Financial Public Sector 2/	52.7	51.5	57.6	59.5	60.2	60.5	60.2	59.4	58.2
External	46.7	46.6	50.0	51.2	51.1	51.1	50.3	49.1	47.6
Domestic	6.0	4.9	7.6	8.4	9.1	9.3	10.0	10.4	10.6
Debt of ACP	2.4	1.9	1.6	1.3	0.9	0.7	0.4	0.4	0.4
Other 3/	4.3	3.9	3.8	3.6	3.4	3.2	3.0	2.9	2.7
External Sector									
Current account	0.0	-3.1	1.9	-0.9	-1.8	-2.5	-2.5	-2.5	-2.5
Net exports from Colon Free Zone	-0.2	-4.3	2.4	2.1	1.2	0.5	0.5	0.5	0.5
Net oil imports	4.8	3.5	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Net foreign direct investment inflows	3.0	1.7	2.8	2.9	2.8	2.7	2.6	2.6	2.5
External Debt	166.5	163.5	161.5	158.2	159.8	161.0	161.0	160.6	159.7
Memorandum									
GDP (in millions of US$)	76,523	83,382	86,260	90,566	96,072	101,913	108,110	114,683	121,655

Sources: Comptroller General; Superintendency of Banks; and IMF staff calculations.

1/ Non-Financial Public Sector including canal

2/ Non-Financial Public Sector according to the definition in Law 31 of 2011. Net of holdings of government debt by the CSS.

3/ Includes debt of public enterprises outside the national definition of NFPS (ENA, ETESA, and AITSA) and non-consolidated agencies.

INTERNATIONAL MONETARY FUND

PANAMA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 14, 2025

KEY ISSUES

Background. Following a strong rebound from the COVID-19 slump, GDP growth slowed from 7.3 percent in 2023 to 2.9 percent in 2024, mainly due to the closure of the Cobre Panamá copper mine. However, spillovers to the rest of the economy appear to have been limited and non-mining GDP growth accelerated. The Panama Canal returned to full capacity in September 2024. Inflation declined sharply from its mid-2022 peak to -0.2 percent year-on-year at end-2024. The 2024 external position is assessed to be broadly in line with fundamentals, and the banking system remains sound, well-capitalized, and liquid.

Outlook and Risks. GDP growth is projected to rise to 4½ percent in 2025 as the mine-closure impact dissipates and remain at 4 percent over the medium term. Inflation is expected to stay low, and the current account balance to hover near balance. Downside risks include loss of investment-grade status, delays in implementing the reform agenda, natural disasters, and heightened global policy uncertainty. On the upside, successful implementation of the government's ambitious reform package—including ongoing mine negotiations—could bolster the outlook.

Policy Advice. The revised Social and Fiscal Responsibility Law's (SFRL) fiscal deficit ceilings—4.0 percent of GDP in 2025, 2.0 percent in 2029, and 1.5 percent in 2030 and beyond—are appropriate. Adhering to them would lower debt to around 40 percent of GDP by 2040, enhancing resilience. The fiscal deficit target in the 2025 budget is appropriate and in line with the SFRL. Full implementation of the government's plan to keep spending below the budget would mitigate risks of revenue shortfalls. In 2026 and beyond, revenue reforms would allow recovering space for priority investment and social protection, while advancing structural fiscal consolidation. The recent pension reform rightly addresses the defined-benefit scheme's funding shortfalls; further measures—such as raising the retirement age—will be key to long-term sustainability. Improving the bank-resolution framework and sustaining AML/CFT efforts will help maintain Panama's standing as a regional financial hub. Continuous improvement in the availability of macrofinancial data will support policy making.

Approved By
Ana Corbacho (WHD) and Koshy Mathai (SPR)

Discussions were held in Panama City during March 20–April 1, 2025. They continued remotely in April and were concluded on June 23, 2025. The in-person mission comprised Bas Bakker (Head), Wim Fonteyne, Olusegun Akanbi, Mai Hakamada (all WHD), Nariné Nersesyan (FAD), and José Daniel Rodríguez-Delgado (STA). Nusula Nassuna and Stephanie Forte (LEG) participated remotely in some of the meetings. Maylin Sun (SPR) contributed to the mission's preparations and analytical work. André Roncaglia, Eloy Arturo Fisher Hogan, and Frank Fuentes (OED) joined some of the discussions. The mission met with Minister of Economy and Finance Felipe Chapman, Superintendent of Banks Milton Ayón Wong, General Manager of the National Bank of Panama Javier Carrizo, and other senior officials and private sector representatives. Julia Muñoz and Natalia Martinez-Camelo provided administrative and research support.

CONTENTS

TABLES

ANNEXES

Acronyms

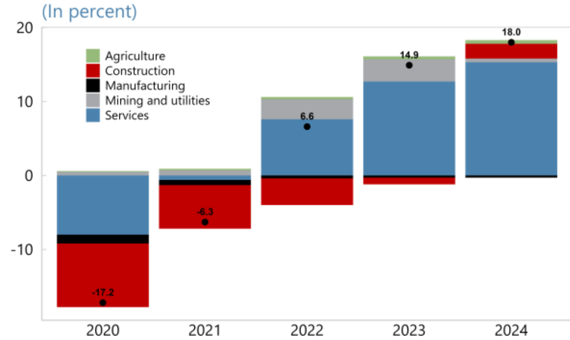
ACP	Autoridad del Canal de Panamá (Panama Canal Authority)
AE	Advanced Economy
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ANA	Autoridad Nacional de Aduanas (National Customs Authority)
ARA	Assessing Reserve Adequacy
BASEL III	International Regulatory Framework for Banks
BCIE	Banco Centroamericano de Integración Económica (CABEI)
BCP	Basel Core Principles
BNP	Banco Nacional de Panamá (National Bank of Panama)
CABEI	Central American Bank for Economic Integration
CAPDR	Central America, Panama, and the Dominican Republic
CAR	Capital Adequacy Ratio
CCB	Capital Conservation Buffer
CCF	Consejo de Coordinación Financiera (Financial Coordination Council)
CFZ	Colon Free Zone
CIF	Cost, insurance, and freight
CIT	Corporate Income Tax
CMCA	Central American Monetary Council
CPD	Costa Rica, Panama and the Dominican Republic
CPI	Consumer Price Index
CPMP	Comité de Politicas Macroprudentiales (Macroprudential Policy Committee)
CSS	Caja de Seguro Social (Social Security System)
DB	Defined Benefit
DC	Defined Contribution
DGI	Dirección General de Ingresos (Tax Authority)
DIS	Deposit Insurance Scheme
DRS	Disaster Resilience Strategy
DSA	Debt Sustainability Analysis
D-SIB	Domestic Systemically Important Bank
DSTI	Debt Service to Income
DTI	Debt to Income
EMBIG	Emerging Markets Bond Index Global
EPZ	Export Processing Zone(s)
FAD	Fiscal Affairs Department
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GAFILAT	Financial Action Task Force of Latin America
IDB	Inter-American Development Bank
IG	Investment Grade
IMAE	Indicador Mensual de la Actividad Económica (Monthly Economic Activity Indicator)
INEC	National Institute of Statistics and Census
IRRBB	Interest Rate Risk in the Banking Book
ISA	Instituto de Seguro Agropecuario (Agricultural Insurance Institute)

KOMIR	Korea Mine Rehabilitation and Mineral Resources Corporation
LA5	Latin America 5: Brazil, Chile, Colombia, Mexico, Peru
LAC	Latin America and the Caribbean
LCR	Liquidity Coverage Ratio
LOLR	Lender of Last Resort
ITBMS	Impuesto de Transferencia de Bienes Muebles y Prestación de Servicios (VAT)
LTU	Large Taxpayers Unit
LTV	Loan to Value
MEF	Ministry of Economy and Finance of Panama
MiAMBIENTE	Ministerio de Ambiente (Ministry of the Environment)
MTFF	Medium-Term Fiscal Framework
NEER	Nominal Effective Exchange Rate
NFPS	Non-Financial Public Sector
NIIP	Net International Investment Position
NPL	Non-performing Loan
OECD	Organization for Economic Co-operation and Development
OTC	Over-The-Counter
PAYG	Pay-As-You-Go
PIT	Personal Income Tax
RAM	Risk Assessment Matrix
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
ROSC	Report on the Observance of Standards and Codes
RPP	Registro Público de Panamá (Public Registry Office)
SBP	Superintendencia de Bancos de Panamá (Superintendency of Banks of Panama)
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Rights
SFRL	Social and Fiscal Responsibility Law
SIP	Selected Issues Paper
SMV	Superintendencia del Mercado de Valores (Superintendency for Securities Markets)
SOE	State-Owned Enterprise
SSF	Single Solidarity Fund
SSNF	Superintendencia de Sujetos No Financieros (Superintendency of Non-Financial Entities)
SSRP	Superintendencia de Seguros y Reaseguros de Panamá (Superintendency of Insurance and Reinsurance)
SUCGS	Sistema Único de Capitalización con Garantía Solidaria
UBO	Ultimate Beneficiary Owner
VASP	Virtual Asset Service Provider
VAT	Value Added Tax

CONTEXT

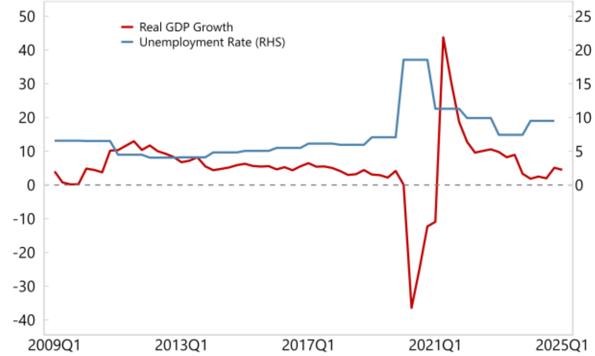
1. In the quarter century pre-COVID 19, Panama saw rapid convergence with advanced economies. The Panama Canal and Tocumen Airport were expanded, there was large-scale building of new skyscrapers in Panama City, and one of the largest copper mines in the world was constructed. Economic growth was further supported by the expansion of the services and logistics sectors, which benefited from the widening of the Panama Canal. As a result, the ratio of Panama's GDP per capita to that of the US grew from 33 to 48 percent.

Panama: Change in Gross Value Added from 2019 and Components
(In percent)



Sources: United Nations National Accounts and IMF staff calculations.

Panama: Real GDP Growth and Unemployment
(In percent, yoy)



Source: INEC and IMF staff calculations.

2. Panama was hit hard by the pandemic but also saw a strong recovery. In 2024, real GDP was 18 percent higher than in 2019—a compound annual growth rate of 3.4 percent. Post-pandemic growth was driven by a rebound in construction and rapid expansion of the services sector, amid modest inflationary pressures.

3. Panama was removed from the Financial Action Task Force (FATF)'s list of jurisdictions under increased monitoring ("grey list") in October 2023. The EU followed suit by removing Panama from its list of high-risk third countries.[1] Panama continues to work with the EU to achieve its removal from the EU list of non-cooperative jurisdictions for tax purposes.

RECENT DEVELOPMENTS

4. In 2024, GDP growth slowed to 2.9 percent, from 7.3 percent in 2023,[2] mainly due to the closure of the Cobre Panamá copper mine.[3] The mine directly and indirectly accounted for

[1] The removal was first proposed by the European Commission in March 2024 but was approved by the EU Parliament only on July 9, 2025.

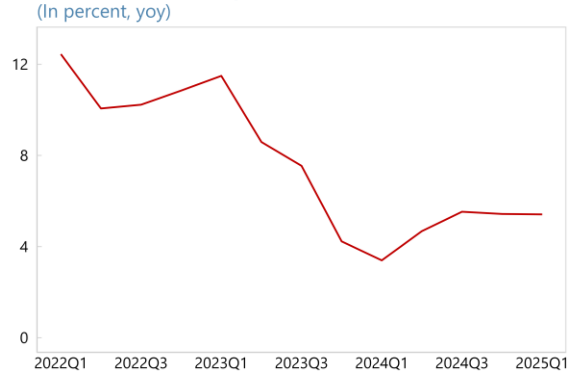
[2] Yoy growth fell from 8.9 percent in 2023:Q3—before the closure of the mine—to 1.9 percent in 2024:Q1.

[3] The government ordered the closure of the Cobre Panamá copper mine in late 2023. The closure followed widespread protests and a Supreme Court ruling that the concession agreement for the mine was unconstitutional.

about 5 percent of GDP and 2 percent of employment. Unemployment increased from 7.4 percent in August 2023 to 9.5 percent in October 2024.

5. The spillovers of the closure of the Cobre Panamá copper mine on the rest of the economy seem to have been limited. Non-mining GDP growth bottomed out at 3.4 percent yoy in 2024:Q1, and accelerated in the course of 2024, reaching 5.4 percent yoy in Q4 and 5.2 percent yoy in 2025:Q1. The services sector grew throughout 2024 and early 2025, continuing its post-COVID 19 boom. From the expenditure side, strong fixed capital formation has been driving growth, fueled by ongoing investments in infrastructure, particularly in transportation and logistics.

Panama: Non-Mining GDP Growth
(In percent, yoy)



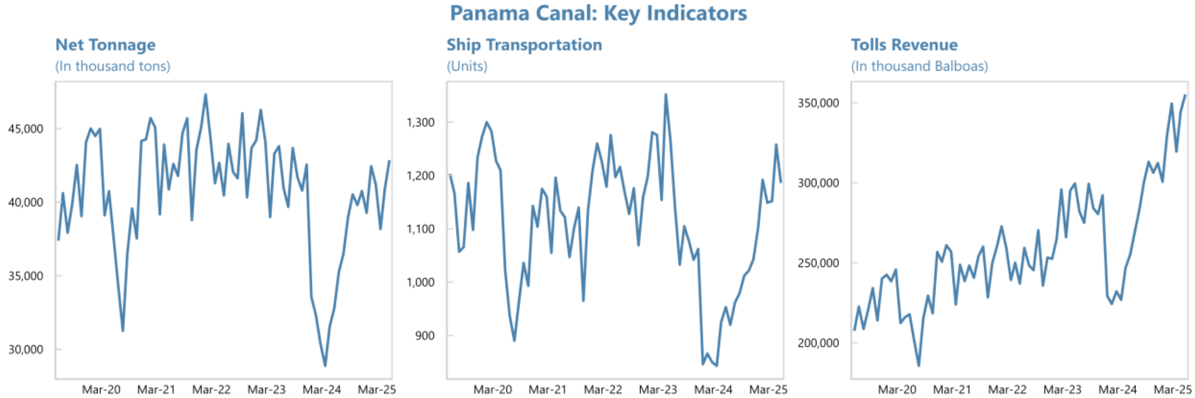
Source: Haver.

Panama: Headline and Core Inflation
(In percent)

Source: INEC and IMF staff calculations.

6. The Panama Canal experienced a significant rebound in transits and toll revenue towards the end of 2024. The Canal suffered a drop of about 1/3 in transits during the 2023–24 dry season due to an El Niño-triggered drought.[4] Since September 2024, the Canal has returned to operating at full capacity, handling an average of 36 ships per day. Lake Gatún reached full capacity by the end of the rainy season in mid-December 2024, which enabled the Canal to maintain full operational capacity throughout the dry season (which lasted until April 2025).

Panama Canal: Key Indicators

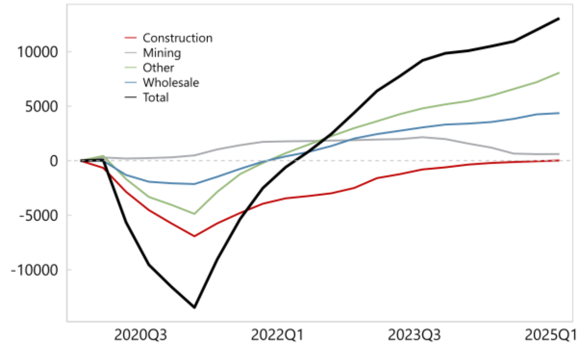


Sources: Haver and IMF staff calculations.

[4] See Annex X of the 2024 Article IV staff report and Annex II of this report.

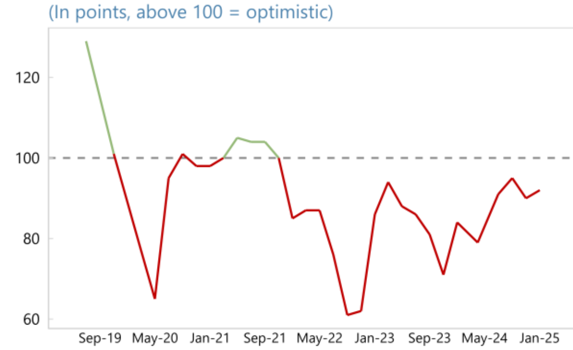
7. Inflation has come down sharply from its peak in mid-2022. The yoy change in the CPI dropped to -0.7 in May 2025. The decline in inflation is the result of a decline in energy prices and a significant slowing of food price inflation. Core inflation has dropped in line with headline inflation and was also at -0.7 yoy in May 2025.

Panama: GDP by Sector
(In millions of 2018 balboas, 4 quarter moving total 2019Q4=0)



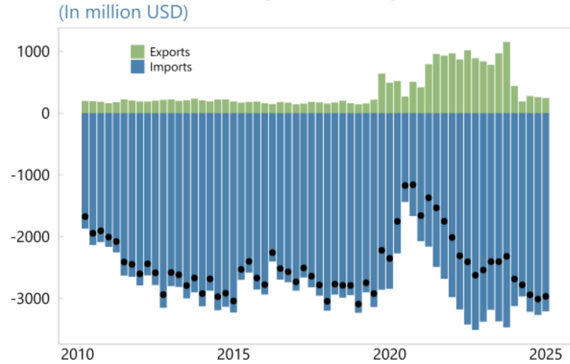
Sources: Haver and IMF staff calculations.

Panama: Consumer Confidence Index
(In points, above 100 = optimistic)



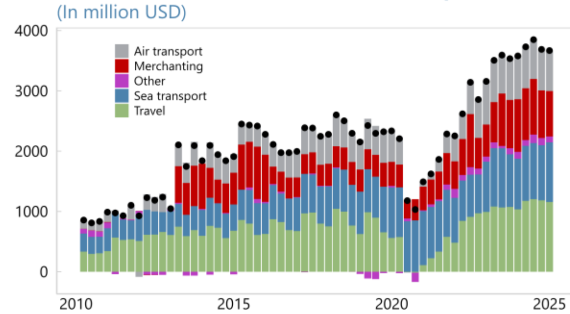
Sources: Cámara de Comercio, Industrias y Agricultura de Panamá (CCIAP), in partnership with The Marketing Group.

Panama: Domestic Exports and Imports of Goods
(In million USD)



Source: Haver.

Panama: BOP Services Balance and Components
(In million USD)



Source: Haver.
Note: Merchanting refers refers to the purchase of goods by a resident from a nonresident and subsequent resale to another nonresident without the goods entering the resident's economy.

Panama: Underlying NFPS Fiscal Deficits
(In percent of GDP)

	2022	2023	2024	2025
Deficit	4.0	3.9	7.4	4.0
Accounting shifts 1/	0.8	-0.3	-0.2	-0.2
Deficit after correction for accounting shifts	4.8	3.6	7.2	3.9
Due to cycle 2/	-0.2	1.7	1.3	-0.2
Deficit after correction for accounting shifts and cycle	4.6	5.3	8.6	3.6
Adjustment for non-inclusion of pension contributions to defined contribution scheme in NFPS revenue	-1.1	-1.1	-1.1	0.0
Other one-offs 3/	0.0	1.4	-0.9	0.1
Deficit after correction for accounting shifts, cycle and one-offs	3.5	5.7	6.6	3.8

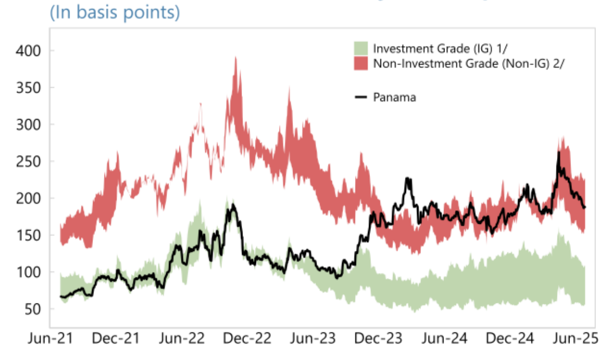
Sources: Controller General, Ministry of Economy and Finance, and IMF Staff Calculations.
1/ Transactions that shift revenue or expenditure between years, such as tax-year extension from 2023 to 2022 and "cash-flow swap" in 2022 with commercial bank to reduce the officially-reported government interest payments
2/ Difference between cyclically adjusted and actual deficit.
3/ Include the sale of land to ACP in 2023, extraordinary tax and non-tax revenues of Minera, settlement of accumulated arrears in 2024, and the tax amnesties of 2023, 2024, and 2025.
Note: NFPS is composed of all general government entities and nonfinancial public enterprises.
It does not include public financial institutions that collect deposits, the Panama Canal Authority, Tocumen International Airport S.A., Empresa Nacional de Autopistas S.A., and Empresa de Transmisión Eléctrica, S.A.

8. The government that came into office in July 2024 took prompt corrective measures to address a significant deterioration in public finances. In the first half of 2024, the Nonfinancial Public Sector (NFPS) fiscal deficit had reached 4 percent of full-year GDP—twice the full-year target of 2 percent of GDP. Expenditure growth had been strong—in line with the approved budget, but not consistent with the fiscal target[5]—while revenues had disappointed, impacted by the cyclical downturn, the closure of the mine, lower traffic in the Panama Canal due to the drought, as well as long-standing challenges from tax base erosion. The new government halted pending public spending programs and postponed unnecessary new hires. It also curtailed investment while keeping the full-year investment-to-GDP ratio in line with recent years at about 5.3 percent of GDP.

9. Despite these corrective measures, the 2024 NFPS fiscal deficit came in at 7.4 percent of GDP, consistent with a deterioration in the underlying fiscal balance[6] of 0.8 percentage points of GDP. With the revision of the 2023 fiscal deficit to 3.9 percent of GDP,[7] the overall deterioration in 2024 was 3.5 percentage points. About half of this deterioration was the result of one-off factors (text table). The 2023 budget had benefited from one-off revenues—tax and royalty payments by Minera and the sale of land to the Panama Canal Authority (ACP)—amounting to 1.3 percent of GDP. Another 1 percentage point was the result of the settlement of arrears, including from previous years. Staff estimates that the underlying fiscal deficit increased from 4.0 to 4.8 percent of GDP.

10. Reflecting fiscal concerns, government bond spreads increased in the second half of 2023 and early-2024. Since then, spreads have hovered around 100–150 bps above levels seen in investment grade (IG) peers. Fitch downgraded Panama to below IG in March 2024. Moody's and S&P now both rate Panama at their lowest IG rating following a downgrade by the latter in November 2024. Moody's changed its outlook to negative in December 2024.

Panama & Selected Economies: 5-year CDS Spreads
(In basis points)

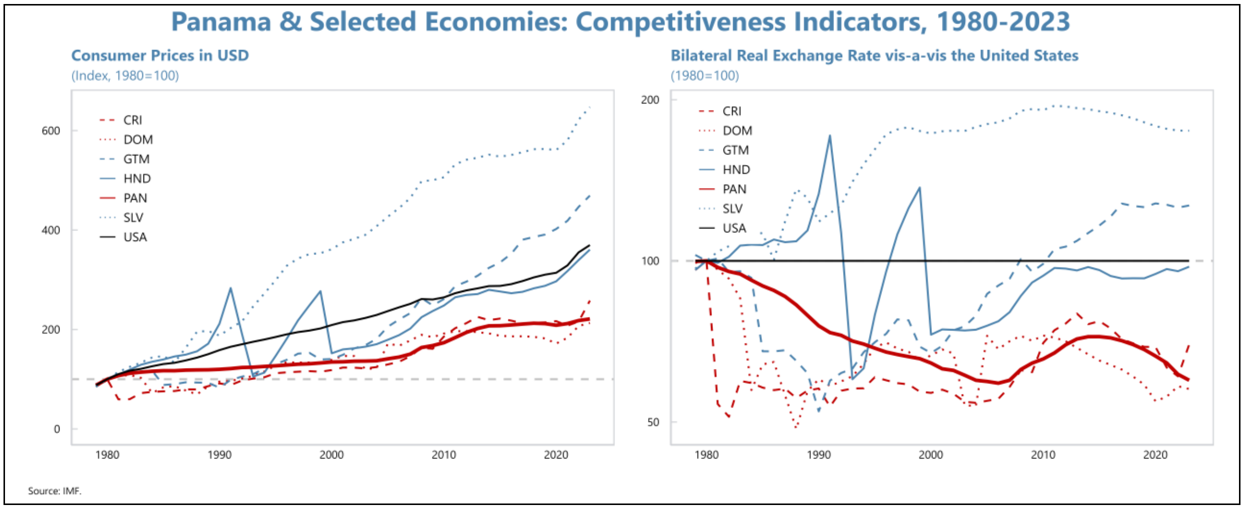


Sources: Bloomberg and IMF staff calculations.
1/ Chile, Mexico, Peru.
2/ Brazil, Colombia.

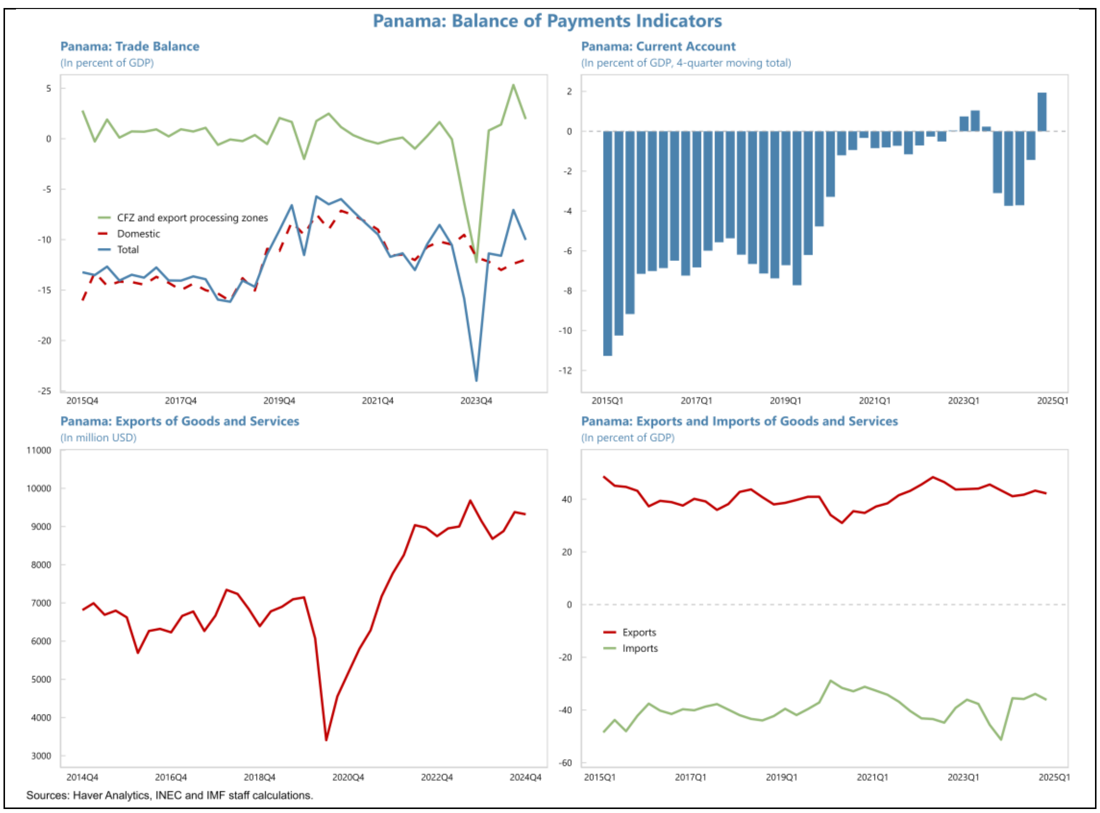
[5] The budget for 2024 aimed to reduce the fiscal deficit from 3 to 2 percent. However, the spending in the 2024 budget was 3.1 percent of GDP higher than the 2023 outcome and was only partially offset by a projected increase in revenues. The gap was filled through a line item "budgeted adjustment"—not yet identified expenditure cuts that would keep government spending below the approved budget.

[6] The underlying fiscal deficit adjusts the headline deficit for one-off factors, accounting changes, and the impact of the economic cycle.

[7] The upward revisions of the 2023 budget deficit were due to: (1) the reversal of an adjustment made in 2023 to record a $225.7 million CSS loan as a 2023 tax advance—this reversal removed the 2023 "tax advance" and recorded it as CSS revenue in 2024; (2) the reallocation of $331.4 million in spending, identified as corresponding to the year 2023, from 2024 to 2023 expenditures.



11. Despite the cessation of copper exports, the current account turned to a surplus in 2024, and the external position is assessed to be broadly consistent with the level implied by fundamentals and desirable policy settings. The 2024 current account surplus of 1.9 percent of GDP was the result of a trade surplus of the Colon Free Zone (CFZ) and export-processing zones (EPZs).[8] In 2023, the current account deficit had widened as a result of an import surge in these zones. Part of these imports were re-exported in 2024. Excluding the CFZ and EPZs, the current



[8] Compared to the 2024 Article IV Staff Report, current account data for 2022 and 2023 have been revised to show, respectively, a small surplus and a smaller deficit.

account registered a deficit of 0.4 percent of GDP in 2024, down from a surplus of 1.2 percent of GDP in 2023. The 2024 external position is assessed to be broadly consistent with the level implied by fundamentals and desirable policy settings (Annex VI).

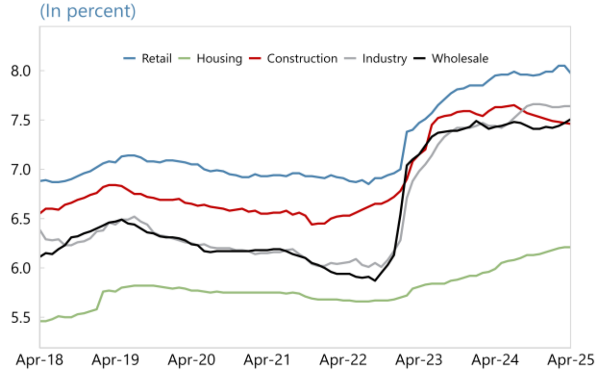
12. The banking sector remains sound but has experienced some compression of interest margins on lending, while profitability remains healthy.[9] Banks are well-capitalized and liquid, with aggregate solvency and liquidity ratios almost double the regulatory requirements, standing at 15.0 and 54.7 percent at end-December 2024, respectively. Non-performing loan ratios (NPLs) remain modest at 2.3 percent and are gradually decreasing as the impact of the pandemic on loan books dissipates. The uptick in NPLs in the construction sector, which was linked with a post-pandemic inventory overhang, appears to have peaked. Credit standards are tighter than before the pandemic. Provisions amount to 102 percent of NPLs.[10] Banks' exposure to Cobre Panamá was limited, as the investment in the mine was financed from abroad. An SBP study showed that exposures through personal and mortgage loans to employees of the mine were also limited. Developments since the mine closure confirm this limited exposure. While interest rates have seen only a partial pass-through of U.S. rates and higher sovereign spreads, they have risen more on deposits than on loans, compressing interest margins on lending. Nonetheless, overall profitability remains healthy, aided by interest income from securities and other assets, growing fee and commission income, and controlled expenses. The sector's aggregate Return on Equity (ROE) was 17.2 percent and Return on Assets (ROA) 1.8 percent in 2024.

13. Between the 2011 and 2023 FSAPs, *overall* financial stability risks have remained moderate and broadly stable. Some vulnerabilities have declined: the size of the banking system has trended downward relative to GDP and capital ratios have trended upward. At the same time, security holdings as a share of banks' total assets are on the rise and the share of more risky corporate bonds in these securities portfolios has been trending up, making banks more susceptible to market risk. The international license banks' share of the banking system has come down.

[9] Panama's banking system has two tiers: general license banks, which serve both domestic and foreign markets, and international license banks, which may not deal with residents. Hereafter, "banking system" refers to general license banks (the national system).

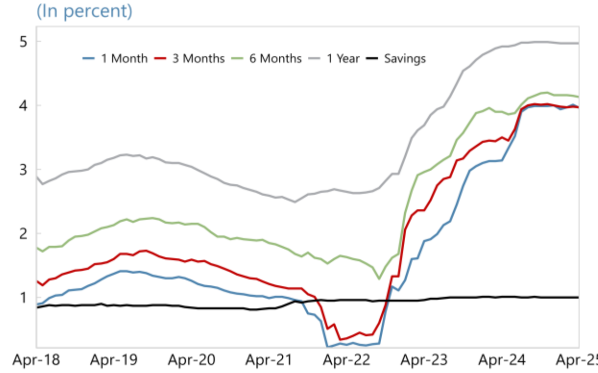
[10] This includes provisions on performing loans.

Panama: Lending Rates
(In percent)



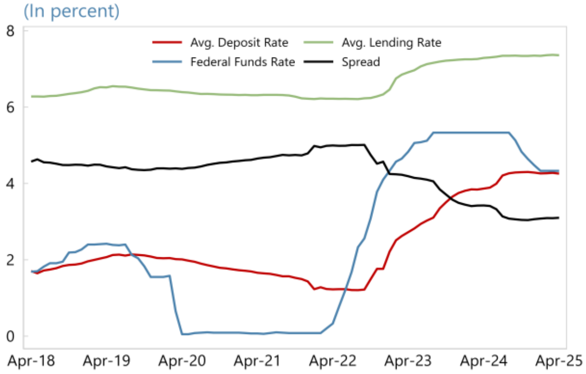
Source: Haver and IMF staff calculations.

Panama: Deposit Rates
(In percent)



Source: Haver and IMF staff calculations.

Panama: Interest Rates and Spread
(In percent)



Source: SBP, Federal Reserve and IMF staff calculations.

Panama: Real Credit Growth
(In percent, yoy)

Source: INEC, SBP and IMF staff calculations.

14. **Higher interest rates have boosted deposit growth, while credit growth has remained robust.** Domestic credit growth, at 5.3 percent in 2024, spanned various sectors except construction. The pace of new credits issued has been accelerating throughout the post-pandemic period, with trade (including services), consumers, industry, and financial companies being the primary beneficiaries. Domestic deposits grew by 5.7 percent in 2024. Higher interest rates have driven a shift from demand and savings to term deposits. Foreign loans and deposits saw stronger growth, at 17.9 and 9.4 percent respectively. Foreign deposits, which account for about 31 percent of the total, are primarily from retail clients (about two thirds) from a diverse set of countries within the region, with Colombia being the largest source. In 2024, foreign interbank deposits (+18.3 percent) saw stronger growth than retail deposits (+6.1 percent). The foreign loan portfolio is likewise geographically diversified, primarily within the region.

15. **In April 2025, First Quantum suspended its $20 billion arbitration proceedings[11] over the closure of the Cobre Panamá mine for 60 days.** Two other major claimants, Franco-Nevada and KOMIR, subsequently also suspended their arbitration proceedings. Suspension had been demanded by the government as a precondition for negotiations. The authorities have authorized

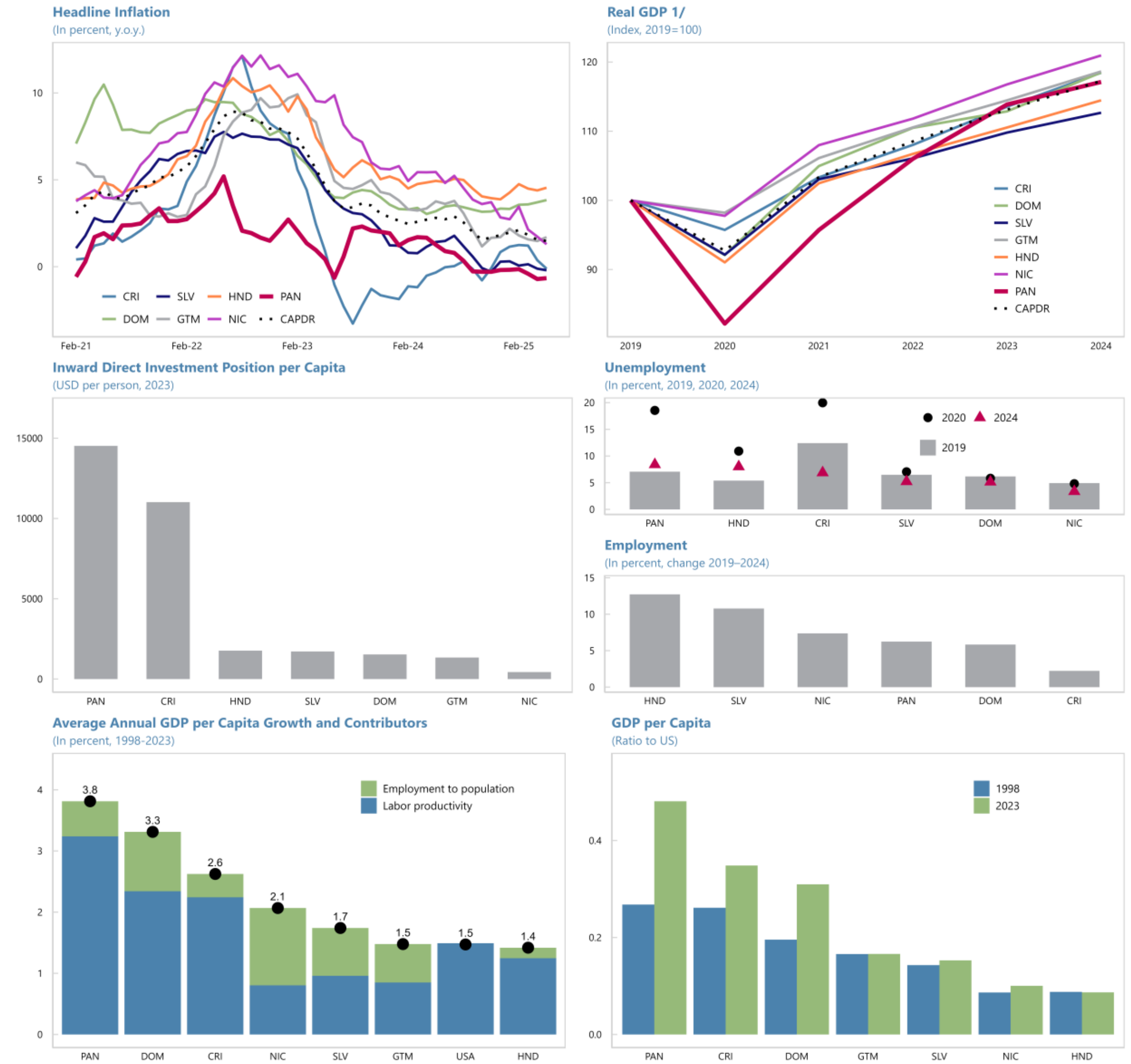
[11] Other investors and contractors are seeking an additional $7 billion.

the export of the stock of copper concentrate, worth about $300 million (0.3 percent of GDP), and adopted the Preservation and Safe Management Plan for the mine, to be implemented by Minera. They have prepared the terms of reference for environmental and business audits, the results of which should help determine future options for the mine.

Panama: Credits and Deposits

Sources: SBP and IMF staff calculations.

Panama and CAPDR: Indicators



Sources: Haver Analytics, WEO, World Bank and IMF staff calculations.
1/ Aggregates are PPP GDP-weighted averages.

OUTLOOK AND RISKS

16. GDP growth is projected to increase to 4½ percent in 2025. Non-mining GDP growth is expected to decelerate due to fiscal consolidation, but overall GDP growth will increase due to base effects (as 2025 figures will no longer be compared against a period that included the now closed copper mine). Over the medium term, GDP growth is projected at about 4 percent per annum. This is lower than during the pre-COVID boom years, as the construction sector is not expected to provide a similar contribution as during those years. Inflation is expected to remain low at 0.7 percent yoy at the end of 2025 and 2 percent over the medium term.

Panama: Macroeconomic Framework
(In percent of GDP, unless otherwise indicated)

			Est.	Projections
	2022	2023	2024	2025
GDP growth	10.8	7.4	2.9	4.5
Inflation (eop, yoy in percent)	2.1	1.9	-0.2	0.7
Credit growth: Private (nominal; yoy in percent)	6.4	3.5	4.4	5.0
Fiscal Balance	-4.0	-3.9	-7.4	-4.0
Public debt (NFPS)	52.7	51.5	57.6	59.5
Current account	0.0	-3.1	1.9	-0.9

Source: National authorities and Fund staff calculations.

17. The current account is projected to return to a deficit in 2025 of 0.9 percent of GDP and converge to levels consistent with the norm over the medium term. The ongoing re-export of the unusual imports into the CFZ and EPZs in 2023 is expected to continue in 2025 and contain the current account deficit on a transitory basis. In the medium term, the current account deficit is projected to reach 2.5 percent of GDP, in line with the estimated current account norm for Panama, and expected to be adequately financed by FDI inflows.

18. Panama faces significant downside risks:

- **Loss of investment grade:** Following the considerable fiscal deterioration in 2024 and Moody's December 2024 decision to change its outlook for Panama to "negative," Panama is at risk of losing IG.
- **Delays in implementing reforms:** The fragmented National Assembly and social unrest pose challenges to the government's ambitious plans for fiscal consolidation and reforms. This could lead to a suboptimal equilibrium characterized by low growth and worsening fiscal dynamics.
- **Ongoing social unrest**, currently concentrated in the Bocas del Toro province, could spread and become more economically damaging.
- **Droughts** resulting from El Niño could affect the operations of the Panama Canal.
- **Arbitration proceedings over the Cobre Panamá closure**, which could resume if the negotiations between the government and the investors in the mine are unsuccessful, could potentially result in large damages awards against the Panamanian State.

- **External risks:** A downturn in the global economy and international trade tensions[12] could affect global trade and Canal revenues, consequently impacting the Panamanian economy. Geopolitical developments could directly affect the Canal's revenues and relations with key trading partners. Panama's financial system is sensitive to U.S. and global financial conditions, the tightening of which could exacerbate the effects of Panama-specific developments in its sovereign spreads.

Panama: Credit Ratings			
Credit Rating Agency	**Rating**	**Outlook**	**Notches Above Cutoff**
Moody's	Baa3	Negative	1
S&P	BBB-	Stable	0
Fitch	BB+	Stable	0
Source: Bloomberg.			

19. If downside risks materialize, fiscal policy may need to be tightened in order to prevent a sharp rise in risk premiums. As a dollarized economy, Panama has no monetary or exchange rate policy instruments to absorb shocks.

20. There are also upside risks:

- The successful implementation of the government's ambitious reform agenda could improve the outlook and unleash mutually reinforcing positive dynamics, with higher growth, lower fiscal deficits, declining public debt ratios, and lower financing costs.
- A reopening of the mine would significantly improve the growth, employment and fiscal outlook and could remove the risks to Panama's medium-term public finances from the international arbitration proceedings by investors in the Cobre Panamá mine.

Authorities' Views

21. The authorities broadly concurred with staff's assessment of the risks and outlook. They sought to avoid a downgrade to below IG by meeting the fiscal deficit targets they had set under the new SFRL, including the 4 percent target for 2025, and finding a solution for the mine that is in Panama's best interest. The authorities recognized the challenges posed by the fragmented National Assembly for their reform agenda but saw a much-reduced risk of large-scale public protests compared to 2022-23, as a result of transparent policies and stricter maintenance of public order. They did not expect the ongoing protests in the province of Bocas del Toro to significantly affect the economy, as the province represents only 1.4 percent of Panama's GDP. The authorities

[12] Panama is less exposed to tariffs than other countries, as exports of domestically produced goods are only 1 percent of GDP.

were concerned about geopolitical developments and global uncertainty but saw a silver lining in the increased international attention for Panama.

22. The authorities saw opportunities for growth from new public investment projects and in various sectors, such as logistics, tourism, and semiconductors. President Mulino had announced an ambitious public investment plan that includes a rail line to Costa Rica. The authorities expected major growth and employment benefits from this plan. They also expected significant benefits from the ACP's planned investments, notably the Rio Indio project. The Rio Indio project would allow the Canal to operate at full capacity through future droughts but was unlikely to be completed before the next El Niño. The authorities also have ambitious plans to improve public services and utilities, notably water and waste management.

POLICY AGENDA

The government has taken important steps to address Panama's key challenges. It has reformed the pension system and addressed the shortages in the system's defined benefit scheme. It has established a new fiscal consolidation path under the revised SFRL that aims to bring debt down to 40 percent of GDP by 2040. It also seeks to further improve transparency and strengthen governance of Panama's institutions. Being a dollarized economy adds to the importance of Panama pursuing sound fiscal and financial policies.

A. Pension Reform[13]

23. The new law creates the Sistema Único de Capitalización con Garantía Solidaria (SUCGS), a third pension scheme running alongside the current defined-benefit and mixed plans. SUCGS has two parts: a Contributory Solidarity Capitalization Component—in which each worker's contributions build an individual account that is annuitized at retirement—and a Non-Contributory Solidarity Component, which guarantees a $144/month minimum pension if an account falls short. All hires from March 18, 2025, join SUCGS immediately. Retirement annuities will vary with investment returns but cannot drop below 60 percent of the reference salary. Existing participants in the defined benefit (DB) and mixed schemes transfer into SUCGS in 2036[14] and receive annuities calculated so that no retiree loses out compared with the old formulas.

24. The reform merges the assets of the three pension schemes. It creates a Single Solidarity Fund—capitalized by merging the reserves of the legacy DB and mixed schemes and backed by an annual $966 million government transfer[15]—to finance current and future benefits across all schemes. Self-employed workers are obliged to participate and must contribute 9.36 percent of taxable income (with an optional 8.5 percent for health and maternity), while employers will see their

[13] See a detailed description of Panama's pension system in Annex I.

[14] Participants in the mixed scheme may opt in earlier. See Annex I.

[15] The transfer will increase annually by up to 4 percent.

contribution rates rise from 4.25 percent to 7.25 percent in three one-point steps in 2025, 2027, and 2029. Employee contributions remain at 9.25 percent.

25. The merger of the assets and the government transfers addresses the liquidity shortfall of the DB scheme, while future parametric adjustments will be needed to ensure long-term sustainability. Part of the assets of the mixed scheme will now be used to pay pensions of the DB scheme, requiring further parametric changes to ensure the sustainability of the new system. An actuarial review, scheduled to be conducted in six years to assess whether the retirement age[16] needs to be raised, is welcome.

26. The pension reform increases 2025 NFPS revenue by 1.1 percentage points of GDP. Of this, 0.1 percentage point is the result of the increase in employer contributions by 1 percentage point. The remainder is due to an accounting change as pension contributions of the participants in the mixed scheme will henceforth be included in NFPS revenues.[17]

Authorities' Views

27. The authorities viewed the pension reform as pivotal for sustainability—securing roughly 15 years of positive cash flows and a guaranteed minimum pension. They expect the reform to encourage participation and formal employment, while its more flexible investment rules should boost asset returns and reinforce system viability. Nonetheless, they agreed that further adjustments—such as reassessing the retirement age—will be needed. They also saw the reform as paving the way to tackle other major policy challenges.

B. Fiscal Policy

28. The government's new fiscal path to reduce the NFPS fiscal deficit to 2.0 percent of GDP by 2029 through gradual and sustainable adjustment is appropriate.[18] It would ensure fiscal sustainability, enhance market confidence, and reduce financing costs, while creating fiscal space to respond to future shocks. Under the authorities' path, staff assesses the risk of sovereign stress as moderate and that public debt would remain sustainable with high probability, although there are significant downside risks (see Annex VII).

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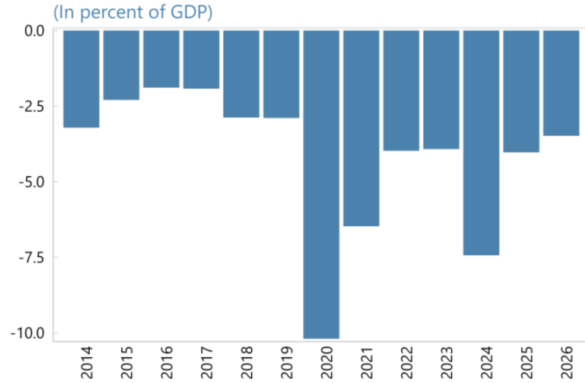
[16] The current retirement age—at 57 for women and 62 for men—is low by international standards.

[17] It is in line with international practice to include the revenues of notional defined contribution pension systems in general government revenues. The pension payments to participants in the mixed scheme will henceforth also be included in NFPS expenditure, but none of these participants is receiving pension benefits yet.

[18] Under the revised SFRL, the deficit ceiling declines by 0.5 percent of GDP each year—from 4.0 percent in 2025 to 1.5 percent from 2030 onward—pushing public debt down to 40 percent of GDP by 2040.



Sources: National authorities and IMF staff calculations.

Panama: Authorities' NFPS Consolidation Path
(In percent of GDP)

		Budget	*Auth. Plan*
	2024	2025	2029
Revenue	**15.8**	**19.8**	**20.0**
Tax	6.7	9.0	9.6
Non tax	4.3	5.4	5.2
CSS	4.6	5.1	5.1
Other	0.3	0.3	0.1
Expenditure	**23.2**	**23.9**	**22.0**
Current	17.9	17.9	16.2
Capital	5.3	5.9	5.8
Balance	**-7.4**	**-4.0**	**-2.0**

Sources: National authorities

29. **The 2025 budget aims to reduce the NFPS deficit to 4.0 percent of GDP through a 4 percentage points of GDP increase in revenue compared to 2024 outcomes.** The 2025 budget does not foresee spending reductions: budgeted spending is 0.7 percent of GDP *higher* than the 2024 outcome, including due to mandated spending requirements.[19]

30. **Even with additional Social Security Fund (Caja de Seguro Social, CSS) revenues of 1.1 percent of GDP,[20] the revenue forecasts in the 2025 budget are optimistic.** The 2025 budget does not include tax rate increases but considers an increase in tax revenues from the authorities' ongoing strategy, which focuses the Tax Authority's (Dirección General de Ingresos, DGI) efforts on priority areas such as the strengthening of large taxpayers' compliance and the control of the VAT (Impuesto de Transferencia de Bienes Muebles y Prestación de Servicios, ITBMS) chain of taxpayer operations throughout its entire life cycle.[21] Staff argued that the short-term yields of these plans were likely to be more limited and that revenues were likely to be lower than budgeted levels.

31. **In light of the revenue shortfalls that materialized in Q1:2025, the cabinet approved, in early June, a welcome plan to adjust public spending compared to the budget.** Tax revenues in the first four months increased by 13.6 percent compared with the same period in 2024—well below the targeted full year increase of 41 percent. In response, and in line with Article 275 of the constitution,[22] the cabinet approved a plan that cut spending by 2.1 percent of GDP (0.5 percentage

[19] The 2025 draft budget submitted to the National Assembly included lower revenue and spending levels; these were modified in the approved budget, including to comply with spending mandates.

[20] See paragraph 25.

[21] This includes establishing control and supervision over: (i) taxpayer enrollment in the taxpayer registry; (ii) authorization for issuing tax documents; (iii) recording of transactions by taxpayers; (iv) filing of tax returns and reports; (v) payment of taxes; (vi) tax refund requests; (vii) modification of key aspects of the taxpayer registry; and (viii) dissolution or closure of a taxpayer's operations.

[22] This article stipulates that, at any time of the year, if the Executive Branch justifiably determines that the total available revenue is lower than the total expenditure authorized in the General State Budget, it shall adopt an

(continued)

points of GDP in current expenditure and 1.6 percentage points in capital expenditure), while protecting priority social programs and public investment. As a result, after adjusting for the impact of arrears settlement on 2024 spending levels, real spending growth in 2025 slows from 11.7 percent in the budget to 1.9 percent. The cuts in capital expenditure will be made by postponing new investment projects to 2026 and adjusting the budget ceilings for ongoing projects based on conservative revenue forecasts. For current expenditures, ministries have been given spending ceilings and flexibility to allocate the cuts. It is expected that the government wage bill will be reduced through strict optimization of the payroll structure. Budget allocations will be recalibrated in line with realistic execution capacity. Some specific public institutions will be streamlined and downsized to improve efficiency and reduce costs.

32. Staff estimates that fully implementing this plan would compensate for the expected revenue shortfalls and be consistent with meeting the SFRL deficit target of 4 percent of GDP in 2025. Due to base effects, year-on-year tax revenue growth is expected to accelerate in the second half of 2025.[23] Staff welcomed the authorities' commitment to protect priority social and investment spending to mitigate the social and economic impact of the adjustment efforts.

Panama: Adjustments Relative to the Budget
(In percent of GDP)

Current Expenditures	**0.48**
Reduction in the government wage bill (personnel expenditures)	0.24
Streamlining of institutional structures	0.04
Expenditure control through restricted budget execution	0.20
Capital Expenditures	**1.64**
Postponement of new projects to 2026	0.74
Budget ceiling adjustments based on conservative revenue forecasts	0.90
Total	**2.12**

Sources: National authorities.

33. The authorities are also fully committed to strengthening revenue collection over the medium and long term. To strengthen collections, the existing Large Taxpayers Unit (LTU) is being elevated to a Department of Large Taxpayers. Phase I of the LTU reform—covering (i) a formal annual information-sharing protocol with the General Taxpayer Registration unit, (ii) streamlined administrative procedures, and (iii) dedicated online service channels to enhance compliance through a risk management–based approach—will be fully implemented by July 2025. Data-sharing mechanisms with the Legal Department are already operational, helping to identify inconsistencies and enhance fiscal oversight. In parallel, to enhance VAT (ITBMS) compliance, an IMF-supported task force is: (i) identifying and closing fraud gaps and prioritizing appropriate institutional responses; (ii) implementing advanced monitoring and control systems linked to the e-Tax2 platform;

expenditure adjustment plan. Application of this article was only possible once sufficient data were available to demonstrate the revenue shortfall.

[23] The shortfall of direct tax revenues in 2024 was much more pronounced in the second half than in the first half.

(iii) establishing and strengthening critical control points to minimize fraud related to VAT (ITBMS) tax credits, and (iv) expanding VAT (ITBMS) coverage to the digital economy.

34. The authorities are working on improving budget formulation and execution. The Ministry of Economy and Finance (MEF) has re-instated legally binding spending ceilings—absent for more than five years—for both current and capital outlays across all government entities and has begun a technical-assistance project to upgrade revenue forecasting. These efforts will be buttressed by the imminent operationalization of an independent fiscal council tasked with validating macro-fiscal assumptions, and by closer coordination with the Comptroller General to ensure transparent and disciplined execution of appropriations.

35. The authorities are reviewing legal spending mandates. A comprehensive review of statutory earmarks, payroll rules, and transfer programs is under way to free resources and align allocations with institutional capacity. Transfers to revenue-generating entities will henceforth require those entities to exhaust their own resources before requesting budget support. With respect to education, where legislation mandates spending of at least 7 percent of GDP, but actual execution has lagged, the authorities are evaluating legal adjustments to better synchronize appropriations with absorptive capacity and overall NFPS targets. Plans to streamline several public institutions—aimed at eliminating inefficiencies and improving service delivery—are being finalized with support from the IDB, World Bank, and IMF staff.

36. Staff welcomed these measures but urged further revenue reforms from 2025 onward to free up space for priority investments and social protection, while advancing structural fiscal consolidation. Combined tax policy and administration reforms could raise revenues by 1.8 percent of GDP—1.4 points from policy changes and 0.4 points from improved collection—bringing spending back in line with the medium-term fiscal plan. Policy measures would lift the standard VAT (ITBMS) rate, broaden its base, phase out unproductive corporate tax preferences, curb regressive personal income deductions, and expand excise taxes. Administration reforms would focus on the DGI's Structural Improvement Plan: finalizing its medium-term strategy, adopting a comprehensive compliance-risk framework, enhancing coordination with the National Customs Authority (Autoridad Nacional de Aduanas, ANA), refining organizational models, and prioritizing the hiring of qualified personnel.

Panama: Consolidated Fiscal Balance of the Non-Financial Public Sector

	2022		2023		2024				2025		2025	
	Actual		Actual		Budget		Est.		Budget		Adjusted Budget 1/	
	(mil. PAB)	*(% gdp)*	*(mil. PAB)*	*(% gdp)*	*(mil. PAB)*	*(% gdp)*	*(mil. PAB)*	*(% gdp)*	*(mil. PAB)*	*(% gdp)*	*(mil. PAB)*	*(% gdp)*
Total Revenue	**13,282**	**17.4**	**14,652**	**17.6**	**16,410**	**19.0**	**13,611**	**15.8**	**17,938**	**19.8**	**16,056**	**17.7**
Taxes	5,866	7.7	6,292	7.5	7,282	**8.4**	5,787	**6.7**	8,164	**9.0**	6,453	**7.1**
Nontaxes	3,421	4.5	3,811	4.6	4,390	**5.1**	3,676	**4.3**	4,862	**5.4**	4,097	**4.5**
CSS	3,721	4.9	3,918	4.7	4,374	**5.1**	3,951	**4.6**	4,642	**5.1**	5,268	**5.8**
Consolidated Agencies	220	0.3	264	0.3	224	**0.3**	216	**0.3**	234	**0.3**	68	**0.1**
Others	55	0.1	367	0.4	141	**0.2**	-18	**0.0**	36	**0.0**	170	**0.2**
Total Expenses	**16,326**	**21.3**	**17,923**	**21.5**	**21,242**	**24.6**	**20,027**	**23.2**	**21,606**	**23.9**	**19,706**	**21.8**
Current expenses	**12,213**	**16.0**	**13,528**	**16.2**	**15,508**	**18.0**	**15,437**	**17.9**	**16,244**	**17.9**	**15,818**	**17.5**
Central Government	6,548	8.6	6,772	8.1	7,437	**8.6**	8,158	**9.5**	7,322	**8.1**	7,018	**7.7**
CSS	4,001	5.2	4,261	5.1	4,911	**5.7**	4,377	**5.1**	5,326	**5.9**	5,326	**5.9**
Consolidated Agencies	346	0.5	348	0.4	385	**0.4**	383	**0.4**	416	**0.5**	294	**0.3**
Interests	1,318	1.7	2,147	2.6	2,774	**3.2**	2,519	**2.9**	3,180	**3.5**	3,180	**3.5**
Capital expenses	**4,114**	**5.4**	**4,395**	5.3	**5,733**	**6.6**	**4,590**	**5.3**	**5361**	**5.9**	3888	**4.3**
Memo												
Primary Balance	**-1,727**	**-2.3**	**-1,124**	**-1.3**	**-2,057**	**-2.4**	**-3,897**	**-4.5**	**-487.8**	**-0.5**	**-470**	**-0.5**
Overall Balance	**-3,045**	**-4.0**	**-3,271**	**-3.9**	**-4,832**	**-5.6**	**-6,416**	**-7.4**	**-3667.5**	**-4.0**	**-3650**	**-4.0**

1/ Revenues reflect staff projections, while expenditures are based on the authorities' revised spending plans.

Panama: Potential Tax Revenue-Raising Measures, 2026-29
(In percent of GDP)

	Potential revenue gain
Tax policy	
Standard VAT (ITBMS) rate is raised to 10 percent	1.08
VAT base is broadened 1/	0.50
Unproductive investment tax incentives are evaluated and eliminated; loopholes are closed 2/	0.26
Regressive personal income deductions and preferential treatments are eliminated 3/	0.10
Scope of excise taxation is broadened; design is improved 4/	0.07
Revenue Administration	
The Emergency Plan focusing on priority areas to boost collection is implemented 5/	0.20
The Structural Improvement Plan is operationlized 6/	0.30
Total:	2.51

Source: IMF Staff calculations, based on FAD Technical Reports (Benedek et al. (2020) and Klemm et al. (2022)), CIAT, The Tax Expenditure Database for Latin America and the Caribbean (TEDLAC), Dirección General de Ingresos, Boletín Estadístico Tributario, Enero - Diciembre 2022

1/ Includes elimination of exemptions on soft drinks, *non-essential* alimentary products, privately-provided medical services, as well as miscellaneous and outdated preferential treatments

2/ Includes elimination of select tax incentives (e.g. in the tourism industry), a stand still on establishment of new Free Zones, introduction of limits on interest deductibility to protect the tax base, and leveling the capital gains tax rate with corporate tax rate

3/ Includes removal of lump-sum compensation for representation expenses, elimination of mortgage interest deduction and curtailing deductions for medical expenses and education loans

4/ Includes introduction of excises on plastic bags and hard-to-dispose materials and raising excises rates on tobacco and alcohol

5/ Includes close oversight of large taxpayers and the control of VAT chain of taxpayer operations

6/ Includes implementation of the DGI's medium-term strategy, improvements of DGI's organizational model, management, and personnel, and implementation of a new framework for compliance risk management.

37. **Over the medium term, efforts on the spending side will also be important.** Measures planned by the authorities include a gradual lowering of the wage bill, a reduction in spending on

non-priority goods and services, and a phased reduction in subsidies through, inter alia, targeted reforms of the liquefied petroleum gas program and a refocusing of the mortgage interest subsidy program.[24]

38. Revisiting spending mandates and commitments would make the budget more flexible and create space to respond to shocks and new priorities. The spending mandate on education and various special laws make it difficult to reduce the level of non-investment spending in the budget. The authorities' ongoing review of legal spending mandates is a welcome first step.

39. To improve the budgeting process, it would be desirable to have revenue projections in the budget verified by the independent fiscal council once it has become operational. In recent years, projected budget gaps that appeared during the budget adoption process have been compensated by raising revenue projections. This has made it harder to meet fiscal deficit targets.

40. To further support fiscal consolidation, Panama's state-owned enterprises (SOEs) would benefit from enhanced governance and oversight mechanisms.[25] In addition to the ACP, Panama has 16 non-financial and 5 financial SOEs. These SOEs are managed by politically appointed Boards of Directors and management teams and have only limited financial independence. While some SOEs perform well, operating efficiently and making profits, others have consistently incurred losses and are dependent on the government budget. Drawing lessons from the success of the ACP, greater independence in governance, finances, and operations, coupled with increased transparency and more effective oversight, would be beneficial.

Authorities' Views

41. The authorities explained that several factors had contributed to Panama's fiscal challenges. These included the increase in the cost of debt service, the existence of special laws that imposed automatic increases in spending, particularly in the area of wages, and the granting of tax incentives that were obsolete or without substitute income, which had significantly eroded government tax revenues.

42. The authorities reiterated their full commitment to a credible and sustainable fiscal adjustment for 2025, in strict observance of the SFRL. They agreed that the revenue projections in the approved 2025 budget were optimistic but explained that, legally, the Executive Branch could only start adjusting public spending when the revenue shortfall had been demonstrated. In light of the revenue shortfalls that materialized in Q1: 2025, they adopted a comprehensive expenditure package to hold NFPS spending at least 2 percent of GDP below the approved budget ceiling, while fully protecting priority social programs and public investment.

[24] The National Assembly adopted the revised mortgage interest subsidy program on April 10, 2025. The authorities estimate that it will save $100-150 million annually compared to the previous program.

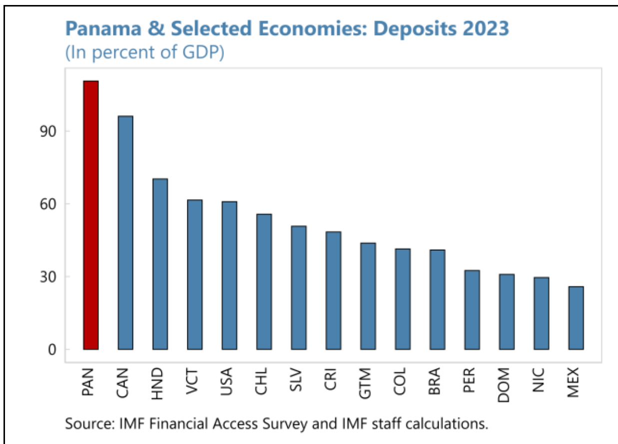
[25] See the accompanying Selected Issues Paper (SIP) titled "State-Owned Enterprises in Panama".

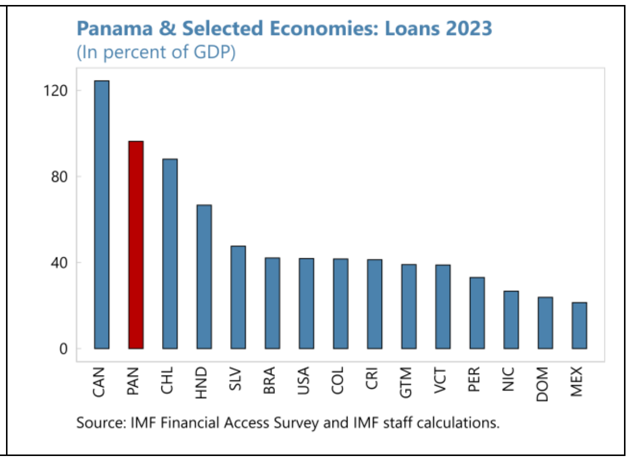
43. The authorities emphasized that their comprehensive strategy to strengthen revenue collection, review spending mandates, and improve the budget process will collectively anchor fiscal sustainability. The authorities' strategy encompasses fundamental and specific reforms to bolster revenue performance, modernize public-finance management, and introduce greater flexibility in spending (see paragraphs 31–33), with which the authorities aim to reinforce confidence in Panama's fiscal framework.

C. Financial Sector Policies

44. The banking system remains stable and sound, reinforced by substantial solvency and liquidity buffers, solid profitability, and prudent management practices. The Superintendency of Banks of Panama (SBP) has prioritized addressing specific situations in a few banks and discouraging banks from engaging in risky practices, particularly in consumer lending. According to the SBP's most recent credit stress test results, all banks possess the capability to absorb the increased provisions resulting from an adverse economic scenario.

45. The authorities have advanced key 2023 FSAP recommendations (Annex VIII), enacting a capital conservation buffer that is being phased in by 2026 and planning D-SIB surcharges in 2025. They have addressed Basel Core Principles (BCP) gaps, plan overhauling the bank-resolution framework, and are weighing deposit insurance and a lender-of-last-resort. Meanwhile, they are enhancing macroprudential statistics, rolling out borrower-based tools, and refining their stress tests.

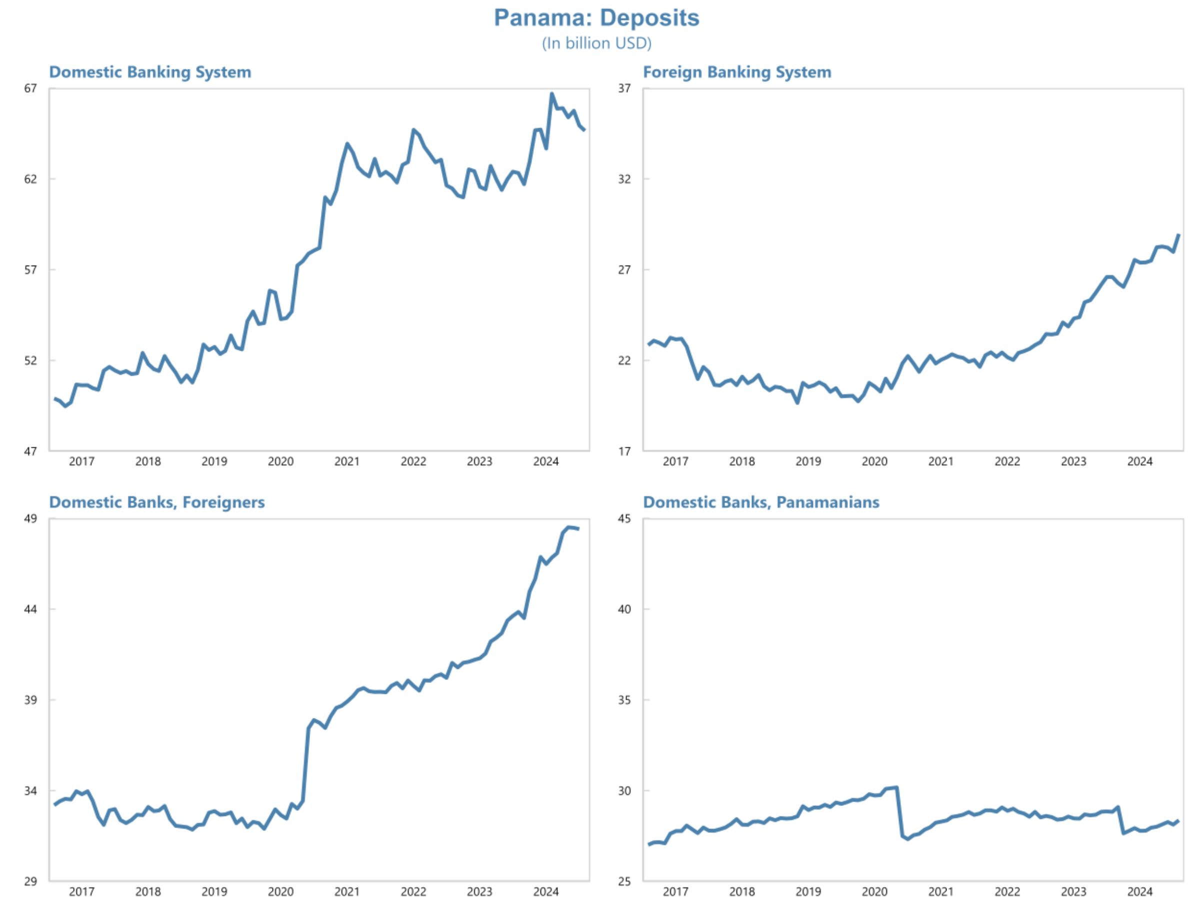




46. To maintain Panama's status as a regional financial hub, the authorities aim to continue strengthening financial integrity. The country is progressing in implementing the recommendations the FATF formulated following Panama's removal from the grey list and is considering how to address the AML/CFT recommendations from the 2023 FSAP. With the next evaluation of Panama's AML/CFT regime by the Financial Action Task Force of Latin America (GAFILAT) approaching in 2027–28, sustaining these efforts remains crucial. The authorities are maintaining an Ultimate Beneficial Owner (UBO) registry and enhancing the mechanisms to verify information submitted to the registry. They are also continuing to strengthen risk-based AML/CFT supervision of resident agents and working with the EU to remove Panama from the list of non-cooperative jurisdictions for tax purposes.

47. The government aims to develop the domestic debt market by diversifying its funding sources and relying more on domestic financing. It aims to raise the share of domestic debt in its total debt to 30 percent by 2030 (up from 18 percent at end-2024) through larger, regularly scheduled issuances designed to attract new—including foreign—investors and narrow spreads. The authorities have launched a comprehensive development plan with regulators, market makers, LATINEX, and other participants, and will develop an over-the-counter (OTC) market alongside direct retail offerings.

48. Developing a domestic debt market can strengthen Panama's financial markets—providing benchmark instruments like a yield curve and deepening market liquidity—but must be weighed against financial-stability goals. A solid technical infrastructure and reliable liquidity sources are prerequisites. Panamanian banks generally prefer foreign securities over local debt as they better match their risk and liquidity needs. Combined with Panama's small size and lack of a central bank, this has constrained market depth. Striking the right balance between market development and stability is therefore essential for sustainable progress.



Sources: IMF Financial Access Survey, SBP and IMF staff calculations.

Authorities' Views

49. The authorities agreed the banking system was sound, with pandemic-related NPL strains easing. They saw Panama remaining an attractive regional banking hub. They were bolstering regulation, supervision, stress testing, and macroprudential policies in line with the 2023 FSAP recommendations. They planned to adopt a payments systems law by year-end, and a bank resolution law in 2026. They were exploring deposit insurance and a lender-of-last-resort and collaborating with international peers to enhance consolidated oversight of cross-border financial groups.

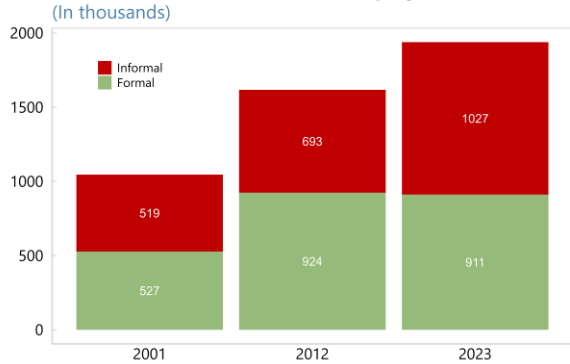
50. The authorities reaffirmed their commitment to AML/CFT standards. They were establishing an Innovation Hub for Fintech that would inform appropriate regulation and legislation for the sector. They had prepared and were implementing a roadmap 2024–27 to prepare for the 2027–28 GAFILAT assessment, taking into account the evolving international standards.

D. Structural Policies

51. In the two decades before the pandemic, Panama's GDP grew at an average rate of 6 percent annually. Growth was driven by a sharp increase in the employment-to-population ratio and labor productivity. A key factor behind this rapid growth was Panama's ability to attract significant FDI inflows.

52. Nevertheless, real wage growth was slow, while informality increased. Real wage growth lagged labor productivity growth, resulting in a sharp decline of the labor income share and a concomitant increase in the gross operating surplus. This partly reflected the growth pattern—with services sectors that have large, fixed costs (such as airlines, the airport and the Panama Canal) growing rapidly, the operating surplus increased. Moreover, the type of employment has changed: in the last decade, job growth was concentrated in the informal sector.

Panama: Formal and Informal Employment
(In thousands)

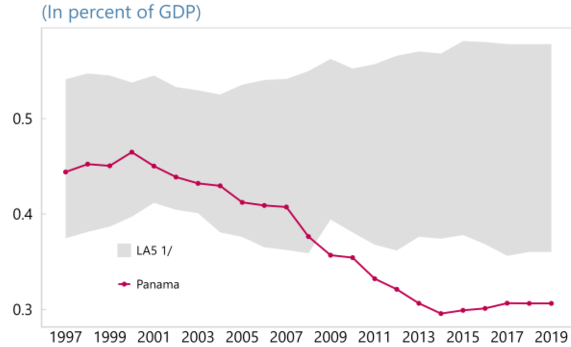


Sources: Haver and INEC.

Panama: Real Wages per Worker and Labor Productivity per Worker (1997-2023)
(Index, 1997 = 100)

Sources: INEC, Penn World Tables 10.0 and IMF staff calculations.

Panama & LA5: Labor Income Share
(In percent of GDP)



Sources: Penn World Tables 10.0 and IMF staff calculations.
1/ LA5: Brazil, Chile, Colombia, Mexico, Peru.

53. Going forward, real GDP growth is unlikely to return to pre-pandemic levels. The construction boom and the associated FDI inflows are unlikely to provide the same support to growth as in the past. Moreover, growth in the employment to population ratio is expected to slow. Staff estimates that Panama's potential growth rate stands at about 4 percent. Strengthening governance, transparency and the anti-corruption framework would help attract more FDI (see Annex III).

Raising Educational Outcomes

54. To raise educational outcomes, priority should be given to cost-effective strategies that improve educational quality. Panama's education test scores are low, including by regional standards. Increased spending by itself will not address this, as cross-country studies consistently find a weak correlation between education spending and test scores. A recent and comprehensive meta-review of the literature found that policies focused on boosting the productivity of schooling—for example targeting instruction to students' learning level rather than grade, and structured pedagogy approaches—can yield substantial gains.

Addressing Regional Income Disparities

55. Targeted interventions are needed to address Panama's significant regional income disparities, between Panama City and Colón on the one hand and rural areas and comarcas on the other. The urban areas in and around Panama City and Colón attract significant foreign investment, multinational corporations, and high-skilled labor, leading to higher incomes and better job opportunities. In contrast, rural areas and the comarcas are largely dependent on agriculture, subsistence farming, and informal economic activities. These sectors have lower productivity and incomes compared to the urban service-based economy. A combination of a multidimensional long-term regional development strategy and short-term measures is needed to reduce these disparities.[26]

Authorities' Views

56. The authorities aimed to maintain Panama as an attractive FDI destination. They recognized the importance of improving transparency, governance and the anti-corruption framework. They planned to publish more data on the financial performance of SOEs and were preparing the restructuring of some entities.

57. The authorities were committed to improving educational outcomes by pursuing cost-effective policies. The government planned to revise the curricula for all levels, create a student-centric learning environment, increase the involvement of parents in schools, improve and update teacher training, introduce teacher evaluations, and invest in infrastructure, tools and IT.

58. The authorities concurred on the need to address regional income disparities. They agreed that this will require targeted policies as well as investments and further utilization of new and existing infrastructure. They saw the planned new railroad and their efforts to improve water management and utilities as contributing to this objective.

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[26] See the accompanying SIP titled "Regional Income Disparities in Panama."

E. Data Issues

59. Following the 2024 Article IV Consultation, the authorities moved to close critical data gaps and produce timelier, more granular macroeconomic series to support surveillance and SDDS subscription. They refined the recording of CFZ-related transactions in the balance of payments—sharply cutting 2023 errors and omissions—and are now extending those improvements to firms in special economic zones. These steps will strengthen external sector statistics and trend analysis. With Fund technical assistance, they have also begun publishing detailed central government (budgetary and extra-budgetary) data in the CMCA (Central American Monetary Council) database, in line with the latest Government Finance Statistics Manual.

60. The timeliness of key macroeconomic statistics has returned to pre-Covid standards, following the completion of the population census and other statistical projects. As a result, data provision is generally adequate despite some remaining shortcomings. Prospects for subscribing to the SDDS are favorable, with only minor improvements needed in the timeliness of the monthly production index (IMAE). These could be achieved through improved inter-agency collaboration.

Authorities' Views

61. The authorities broadly agreed with staff's assessment of data shortcomings and noted INEC was spearheading efforts to improve the availability of source data and further improve inter-agency data sharing. Ongoing efforts to standardize existing data sources, digitalize public records, and employ big data techniques should improve the timeliness of existing data sets, including external sector and labor data. These efforts should also facilitate the compilation of new datasets such as residential and commercial real estate price indices. In this context, the authorities considered that meeting the SDDS timeliness requirements for IMAE was within reach.

STAFF APPRAISAL

62. Panama's vibrant private sector and sound economic policies have led to a rapid convergence of its income level with that of advanced economies in the past 25 years. Convergence continued even during 2019-2024. Private sector imbalances have been modest, and inflation has been low and stable.

63. Panama's economy has rebounded from the closure of the Cobre Panamá mine, but downside risks remain significant amid high global policy uncertainty. GDP growth is expected to improve to 4½ percent in 2025 and is projected at around 4 percent over the medium term. The 2024 external position is assessed to be broadly in line with the level implied by fundamentals and desirable policies. Key risks include the loss of investment grade status, a further rise in financing costs, potential headwinds from geopolitical developments, and extremely high global policy uncertainty. Being a dollarized economy adds to the importance of maintaining fiscal sustainability and financial stability.

64. The government's fiscal targets embedded in the revised SFRL path to reduce the NFPS fiscal deficit to 2.0 percent of GDP by 2029 are appropriate. Adhering to these targets would enable a steady reduction in the debt-to-GDP ratio to 40 percent by 2040, a level of debt assessed to be sustainable with high probability. This would enhance market confidence, reduce financing costs, and create fiscal space for future shocks.

65. The spending reduction plan approved by the cabinet is welcome and its full implementation would be consistent with meeting the 2025 fiscal target. The plan would reduce spending by 2.1 percentage points of GDP relative to the adopted 2025 budget, through a combination of restraint in current expenditures and significant reductions in planned investment expenditures, while preserving priority social programs and public investment. In 2026 and beyond, the authorities' commitment to implementing revenue reforms would allow recovering space for priority social and public investment, while advancing structural fiscal consolidation in line with the SFRL.

66. The authorities' strategy to revisit spending mandates and commitments would enhance budget flexibility and capacity to absorb shocks and pursue new priorities. Furthermore, the verification of revenue projections by the independent fiscal council once it is operationalized as planned by the authorities will help improve the budgeting process.

67. The pension reform is a welcome adjustment that addresses the financial shortfalls of the defined benefit scheme. The creation of the non-contributory solidarity pension component will improve Panama's social safety net. Further adjustments of the pension system will be needed in the future to ensure long-term sustainability. The forthcoming actuarial review is welcome as it provides an opportunity to assess the need to increase the currently low retirement age.

68. Improving the bank resolution framework will help underpin the banking system's financial soundness. Aggregate indicators and SBP stress tests confirm the sector's resilience. The SBP's efforts to address specific situations in a few banks and discourage risky practices, and consideration of a financial safety net, are welcome steps. The authorities have advanced key 2023 FSAP recommendations, yet adoption of a payment-systems law and revision of the bank resolution law remain essential to fulfill the reform agenda's stability and development objectives. While developing local financial markets promises benefits, maintaining a careful balance between market development and financial stability is crucial for lasting success.

69. The authorities' continued commitment to implementing effectively the AML/CFT standards will contribute to maintaining Panama's status as a regional financial center. All Fintech companies that carry out the activities of financial institutions or virtual asset service providers as defined by the FATF standards should be subject to AML/CFT regulation and supervision.

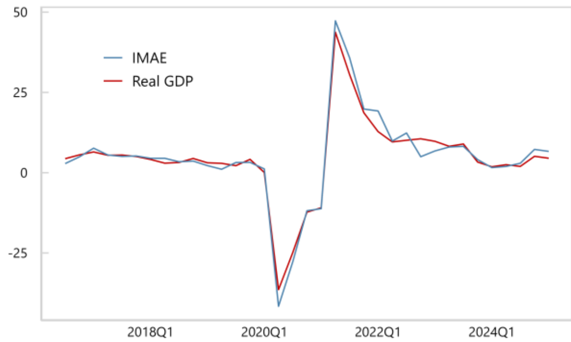
70. Further improvements in governance and education would help foster continued convergence of Panama's income level with advanced economies. Addressing income inequality requires targeted interventions in rural areas, focusing on infrastructure and education to reduce disparities with urban regions. Ongoing efforts to improve the availability of macro-financial data will support transparency and policy making.

71. It is recommended that the next Article IV Consultation take place on the standard 12-month cycle.

Figure 1. Recent Real Developments

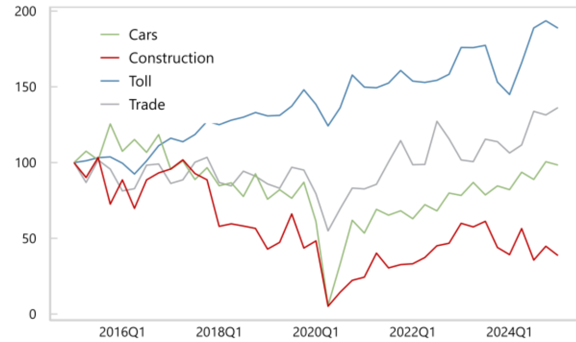
The post-pandemic recovery petered out in late 2023....

Economic Activity
(Percent year-over-year)



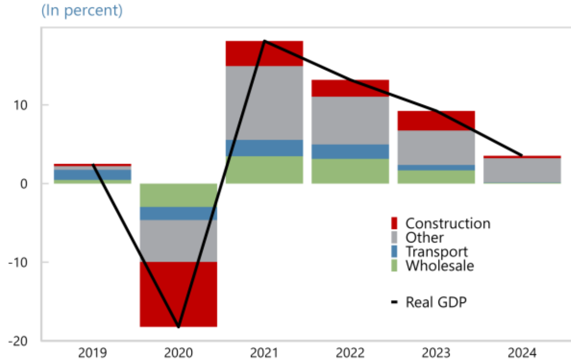
... but the economy reaccelerated in 2024.

High-Frequency Indicators
(Index 2015Q1=100)



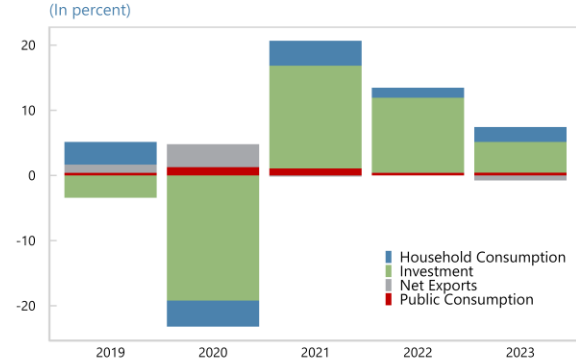
Commerce, construction, and tourism drove the recovery ...

Real GDP Growth (Sectoral Contributions)
(In percent)



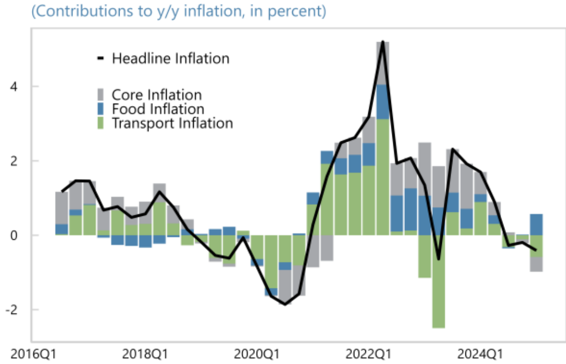
... through investment and private consumption.

Real GDP Growth (Demand-Side Contributions)
(In percent)



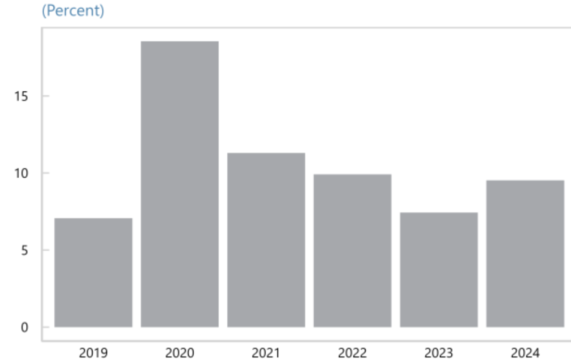
Post-pandemic inflation has subsided...

Consumer Price Inflation
(Contributions to y/y inflation, in percent)



... and unemployment bounced back following the mine closure, to well above its pre-pandemic level.

Unemployment Rate
(Percent)

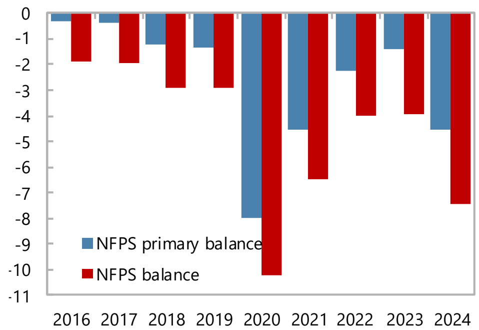


Sources: IMF staff estimates.

Figure 2. Fiscal Developments

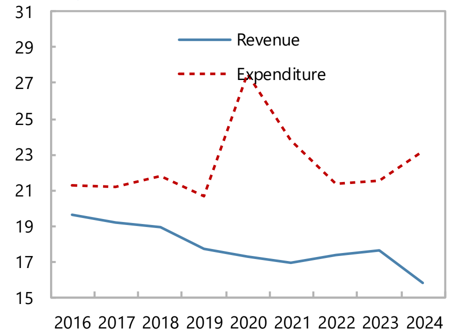
Fiscal consolidation partially reversed in 2024...

Fiscal Balances[1/]
(In percent of GDP)



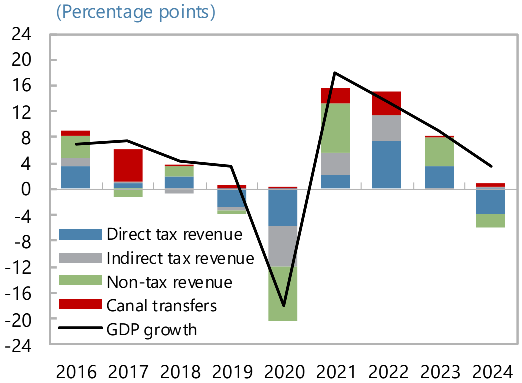
... due to both revenue and expenditure developments.

Revenue and Expenditure[1/]
(In percent of GDP)



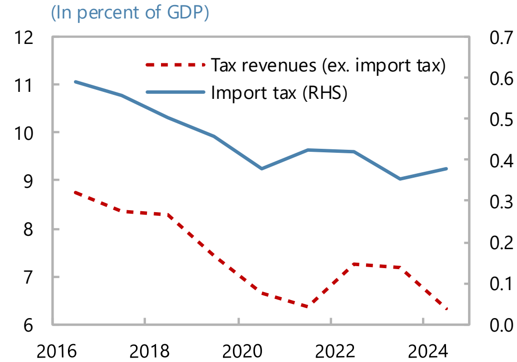
All revenue components declined in 2024, except for Canal transfers....

Revenue Contribution[2/]
(Percentage points)



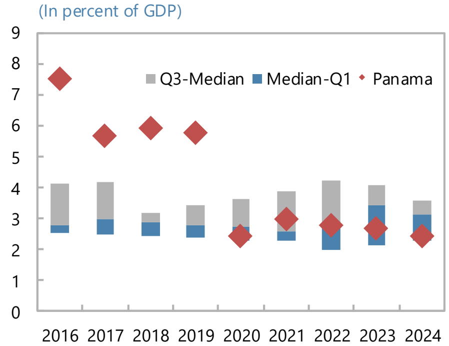
... as the downward trend in tax revenues persists.

Tax Revenues
(In percent of GDP)



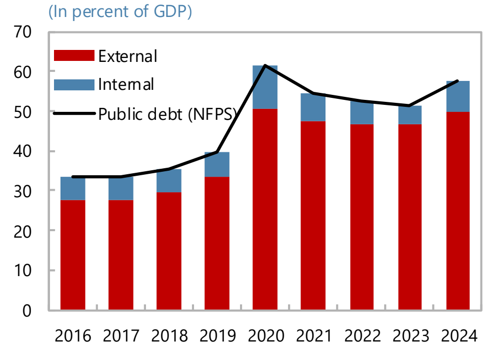
Public investment no longer exceeds that of other countries in the region.

Public Gross Fixed Capital Formation[3/]
(In percent of GDP)



Public debt remains below the pandemic peak but edged up in 2024.

Public Debt
(In percent of GDP)

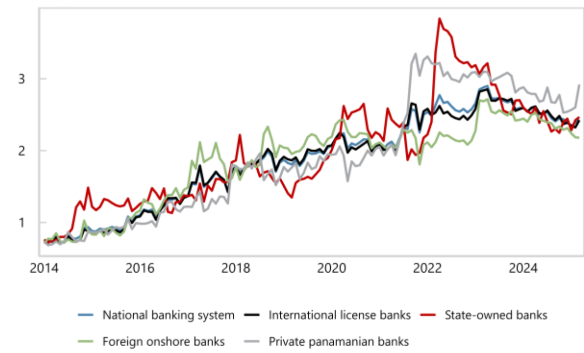


Sources: National Authorities, WEO database and IMF staff calculations.
1/ Non-financial Public Sector
2/ Data refer to the Central Government
3/ Countries considered in the chart are CAPDR (Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica, Dominican Republic) and Brazil, Chile, Colombia, Mexico, and Peru

Figure 3. Financial Indicators

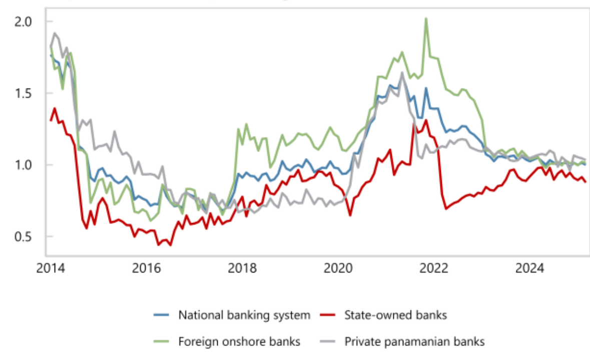
NPL have stabilized following the pandemic...

Nonperforming Loans
(In percent of total loans)



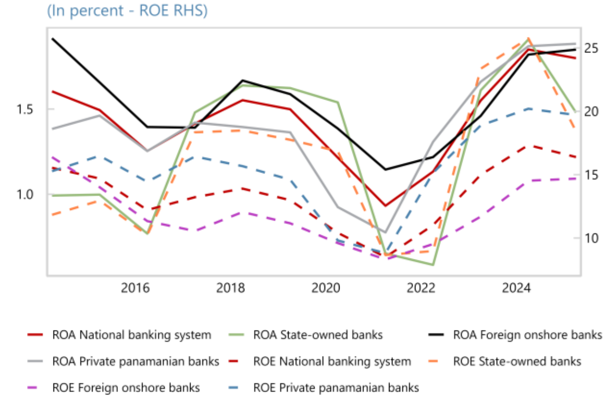
...and are well covered by provisions.

Provisioning
(In percent of total nonperforming loans)



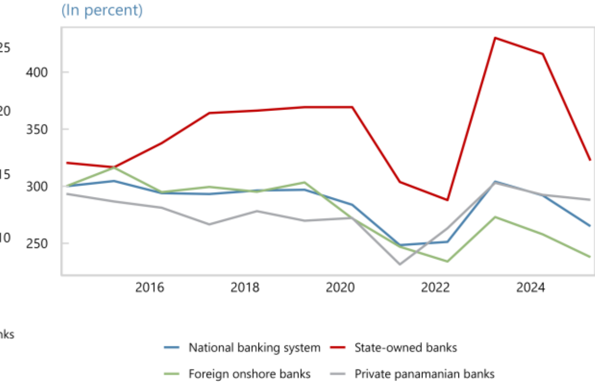
Profitability has recovered to healthy levels...

ROA vs. ROE
(In percent - ROE RHS)



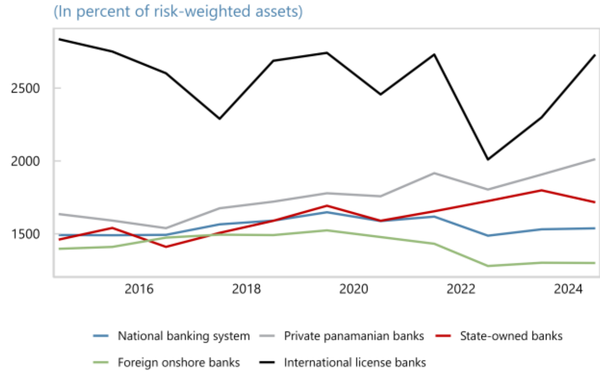
...despite some pressure on interest margins.

Net Interest Margin
(In percent)



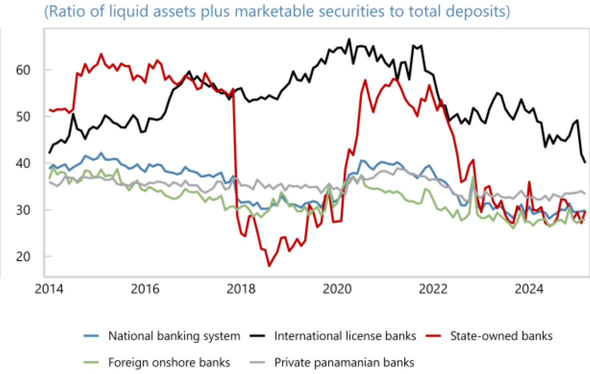
Banks remain well capitalized...

Capital Adequacy Ratio
(In percent of risk-weighted assets)



...and liquid.

Bank Liquidity
(Ratio of liquid assets plus marketable securities to total deposits)

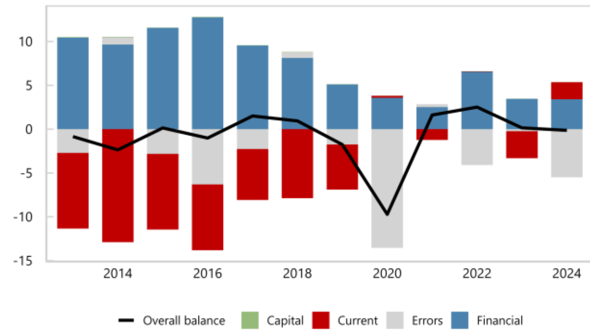


Sources: SBP and IMF staff calculations.

Figure 4. External Sector Developments

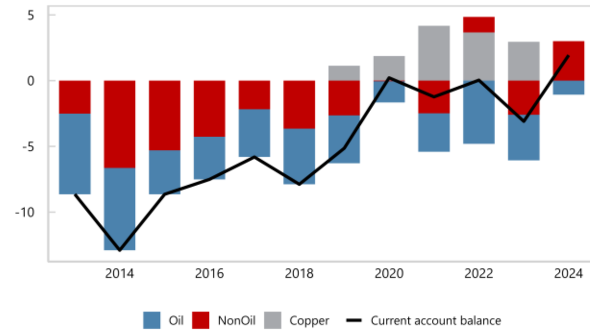
The overall balance of payments is balanced.

Overall Balance of Payment
(In percent of GDP)



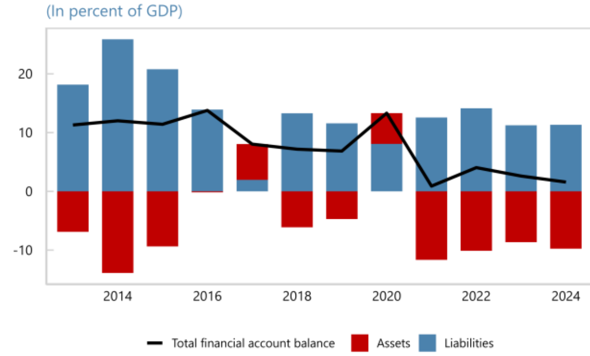
Volatility in CFZ and EPZ exports masks the deterioration in the current account caused by the mine closure.

Current Account Oil and Non-oil
(In percent of GDP)



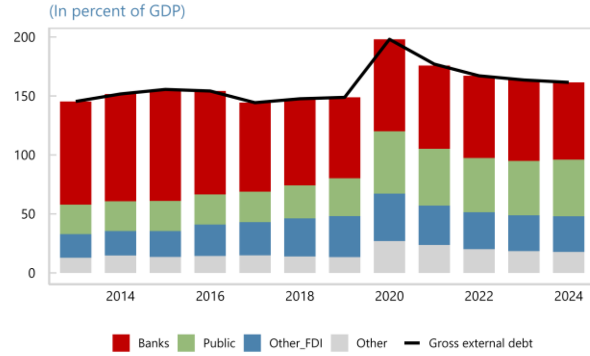
External borrowing has supported the financial account…

Financial Accounts
(In percent of GDP)



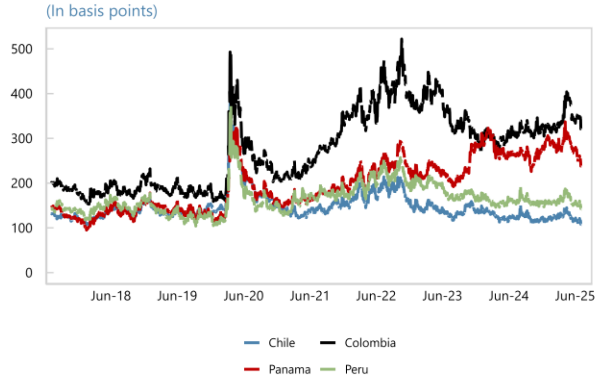
…as increased government borrowing is reflected in the composition of external debt.

External Debt
(In percent of GDP)



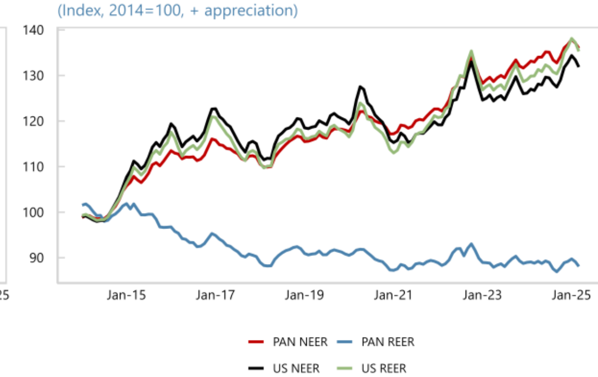
Spreads remain high despite an initial positive market reaction following the elections.

EMBIG Spreads
(In basis points)



Low inflation has supported competitiveness.

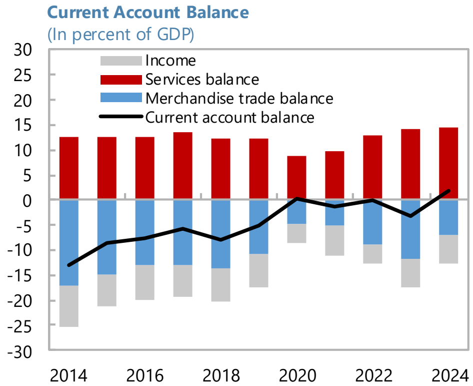
Nominal and Real Effective Exchange Rates
(Index, 2014=100, + appreciation)



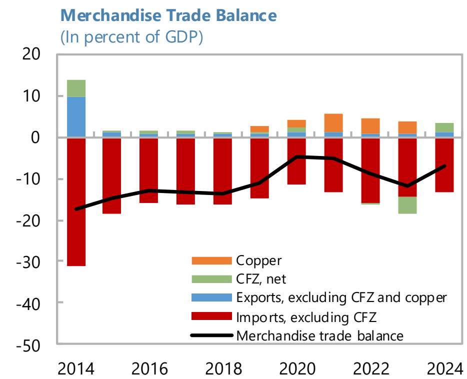
Sources: Haver, INEC and IMF staff calculations.

Figure 5. Balance of Payments

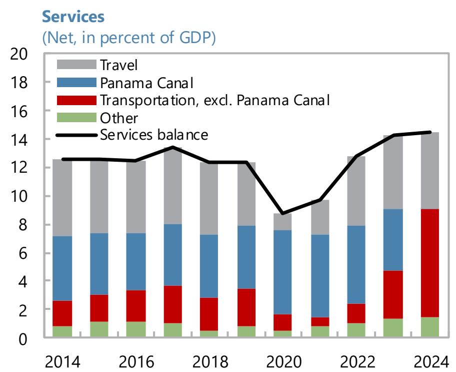
The current account is balanced as services exports…



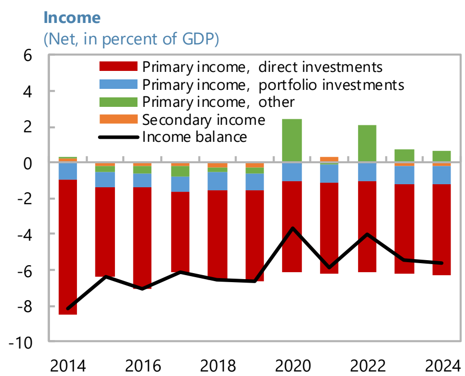
… compensate for deficits in merchandise trade.



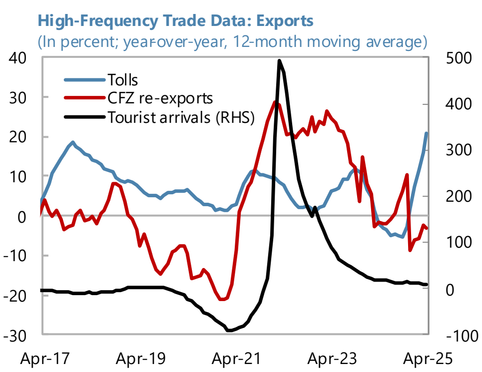
Services exports have recovered as tourism rebounded.



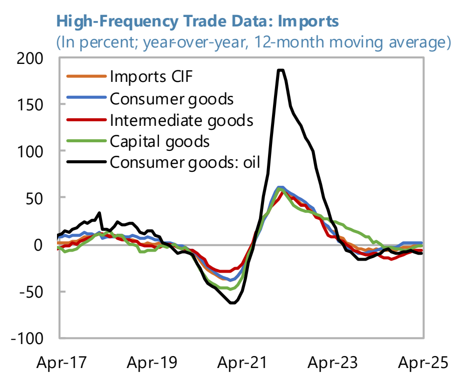
The large stock of FDI drives the negative income balance.



Canal tolls recovered from a dip due to the drought.



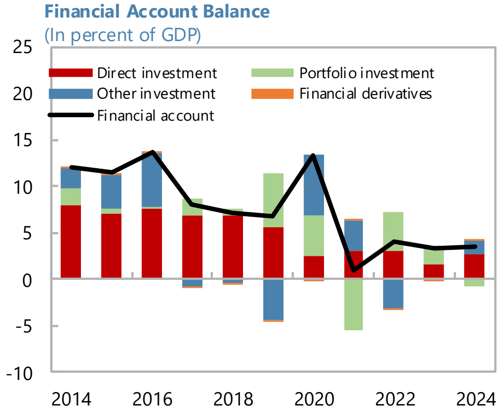
Capital goods imports were resilient post-pandemic compared to other imports.



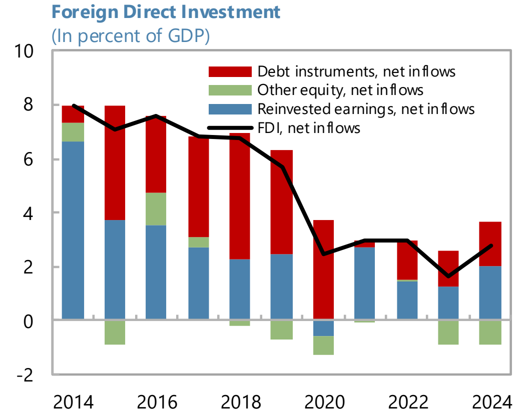
Sources: Haver, INEC, and IMF staff calculations.

Figure 6. Balance of Payments: Financial Account

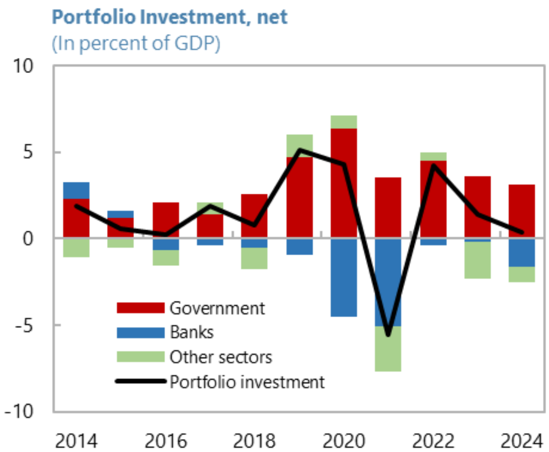
The financial account remains positive ...



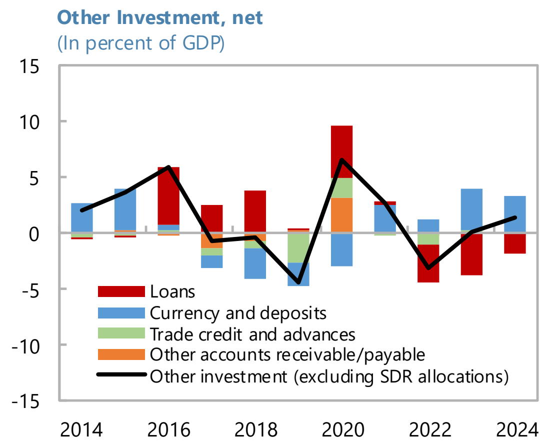
... despite the decline in FDI inflows.



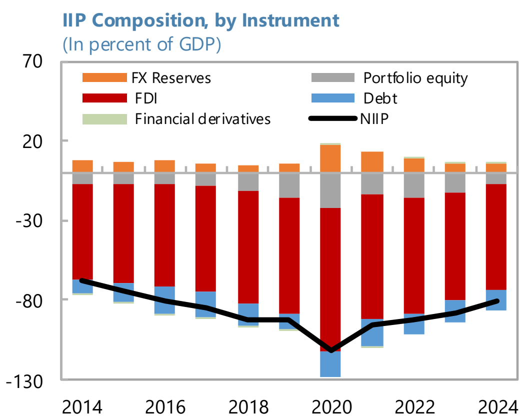
Portfolio investment has declined in recent years.



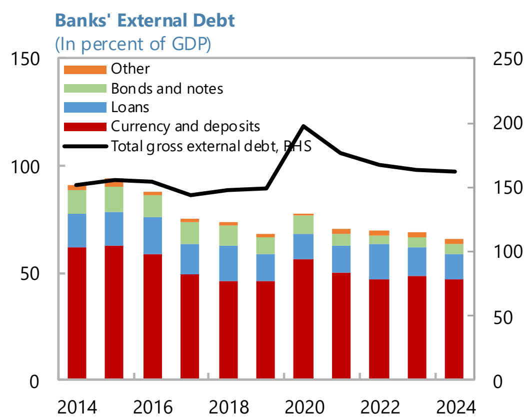
Currency and deposits offset loans.



The Net International Investment Position is dominated by FDI.



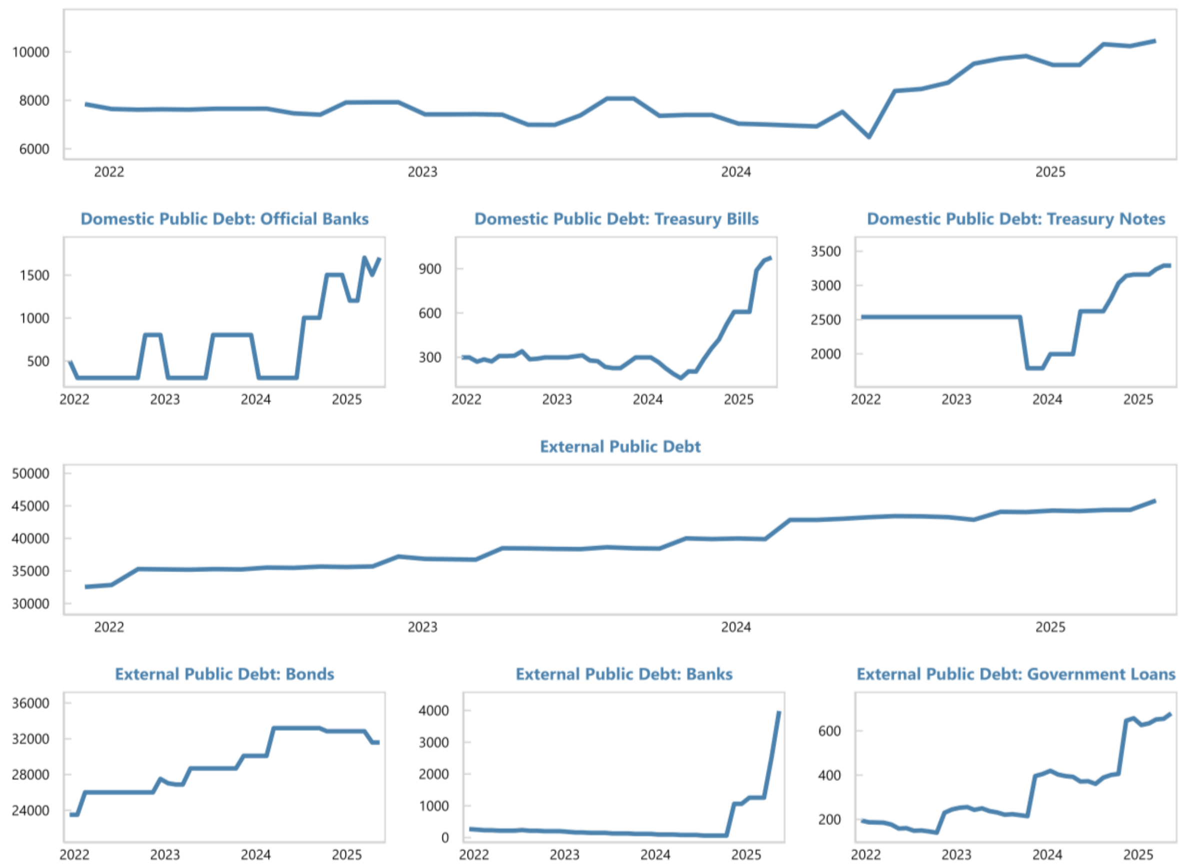
Deposits constitute the bulk of banks' external debt.



Sources: Haver, INEC, and IMF staff calculations.

Figure 7. Outstanding Debt

(In millions USD, eop)



Sources: MEF and HAVER.

Table 1. Panama: Selected Economic and Social Indicators, 2022–30

Population (millions, 2024)	4.5	Poverty line (percent, 2019)	21.5
Population growth rate (percent, 2024)	1.3	Adult literacy rate (percent, 2019)	95.7
Life expectancy at birth (years, 2022)	76.2	GDP per capita (US$, 2024)	19,169
Total unemployment rate (Oct, 2024)	9.5	IMF Quota (SDR, million)	376.8

				Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
				(Percent change)					
Production and Prices									
Real GDP (2007 prices)	10.8	7.4	2.9	4.5	4.0	4.0	4.0	4.0	4.0
Consumer price index (average)	2.9	1.5	0.8	0.4	2.0	2.0	2.0	2.0	2.0
Consumer price index (end-of-year)	2.1	1.9	-0.2	0.7	2.0	2.0	2.0	2.0	2.0
Output gap (% of potential)	-1.0	0.0	-2.0	-1.0	0.0	0.0	0.0	0.0	0.0
Demand Components (at constant prices)									
Public consumption	2.9	3.4	22.2	-0.5	0.8	-0.6	-0.1	1.5	1.4
Private consumption	3.0	4.8	-0.9	4.5	4.0	4.0	4.0	4.0	4.0
Public investment	11.9	85.6	0.1	-20.6	9.2	14.4	10.2	9.2	6.1
Private investment	52.3	8.5	-0.9	4.5	4.0	4.0	4.0	4.0	4.0
Exports	22.3	5.1	-9.6	7.4	1.6	1.6	3.2	3.1	3.0
Imports	24.0	7.1	-15.8	6.7	4.2	4.4	3.7	3.5	2.8
Financial Sector									
Private sector credit	6.4	3.5	3.9	5.0	6.1	6.1	6.1	6.1	6.1
Broad money	-1.9	3.3	5.4	5.0	6.1	6.1	6.1	6.1	6.1
Average deposit rate (Percent)	1.8	3.8	4.3	3.4	3.4	3.4	3.4	3.4	3.4
Average lending rate (Percent)	7.7	8.5	8.7	6.5	6.5	6.5	6.5	6.5	6.5
				(In percent of GDP)					
Saving-Investment Balance									
Gross domestic investment	35.8	37.7	36.8	39.0	39.7	40.9	41.3	41.5	41.8
Public sector	2.9	5.0	5.0	3.8	4.0	4.4	4.6	4.9	5.0
Private sector	39.1	38.2	31.8	35.3	35.7	36.5	36.6	36.6	36.8
Gross national saving	35.9	34.6	38.7	38.1	37.9	38.4	38.8	39.0	39.3
Public sector	2.2	1.5	-1.3	1.1	2.2	3.1	4.2	5.0	5.0
Private sector	33.6	33.1	40.0	37.0	35.7	35.3	34.6	33.9	34.2
Public Finances 1/									
Revenue and grants	19.9	20.5	18.5	20.5	20.8	21.2	21.8	22.4	22.7
Expenditure	22.9	23.6	25.2	23.6	23.1	23.1	23.1	23.2	22.9
Current, including interest	17.4	17.6	19.3	18.8	18.3	17.7	17.2	17.0	16.7
Capital	5.5	6.0	6.0	4.8	4.9	5.4	5.8	6.2	6.1
Overall balance, including ACP	-3.1	-3.1	-6.7	-3.0	-2.3	-1.8	-1.3	-0.7	-0.2
Overall balance, excluding ACP	-4.0	-3.9	-7.4	-4.0	-3.5	-3.0	-2.5	-2.0	-1.5
Total Public Debt									
Debt of Non-Financial Public Sector 2/	52.7	51.5	57.6	59.5	60.2	60.5	60.2	59.4	58.2
External	46.7	46.6	50.0	51.2	51.1	51.1	50.3	49.1	47.6
Domestic	6.0	4.9	7.6	8.4	9.1	9.3	10.0	10.4	10.6
Debt of ACP	2.4	1.9	1.6	1.3	0.9	0.7	0.4	0.4	0.4
Other 3/	4.3	3.9	3.8	3.6	3.4	3.2	3.0	2.9	2.7
External Sector									
Current account	0.0	-3.1	1.9	-0.9	-1.8	-2.5	-2.5	-2.5	-2.5
Net exports from Colon Free Zone	-0.2	-4.3	2.4	2.1	1.2	0.5	0.5	0.5	0.5
Net oil imports	4.8	3.5	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Net foreign direct investment inflows	3.0	1.7	2.8	2.9	2.8	2.7	2.6	2.6	2.5
External Debt	166.5	163.5	161.5	158.2	159.8	161.0	161.0	160.6	159.7
Memorandum Items:									
GDP (in millions of US$)	76,523	83,382	86,260	90,566	96,072	101,913	108,110	114,683	121,655

Sources: Comptroller General; Superintendency of Banks; and IMF staff calculations.

1/ Non-Financial Public Sector including canal

2/ Non-Financial Public Sector according to the definition in Law 31 of 2011. Net of holdings of government debt by the CSS.

3/ Includes debt of public enterprises outside the national definition of NFPS (ENA, ETESA, and AITSA) and non-consolidated agencies.

Table 2. Panama: Summary Operations of the Non-Financial Public Sector, 2022–30[1/]
(In percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
				Non-Financial Public Sector					
Revenues	**17.4**	**17.6**	**15.8**	**17.7**	**18.0**	**18.4**	**18.9**	**19.5**	**19.7**
Current revenue	17.1	17.0	15.6	17.6	17.9	18.3	18.8	19.4	19.6
Tax revenue	7.7	7.5	6.7	7.1	7.4	7.8	8.3	8.9	9.1
Nontax revenue	4.5	4.6	4.3	4.5	4.5	4.5	4.6	4.6	4.6
o/w: Panama Canal fees and dividends	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Social security agency	4.9	4.7	4.6	5.8	5.8	5.8	5.9	5.9	5.9
Public enterprises' operating balance	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other 1/	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Capital revenue	0.3	0.6	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure	**21.3**	**21.5**	**23.2**	**21.8**	**21.5**	**21.4**	**21.5**	**21.5**	**21.2**
o/w COVID-19 related expenditure	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current primary expenditure	14.2	13.6	15.0	14.0	13.8	13.3	13.0	12.7	12.5
Central government 2/	8.6	8.1	9.5	7.7	8.3	7.8	7.5	7.2	7.0
Rest of the general government	5.7	5.5	5.5	6.2	5.5	5.5	5.5	5.5	5.5
Social security agency	5.2	5.1	5.1	5.9	5.1	5.1	5.1	5.1	5.1
Decentralized agencies	0.5	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Interest	1.7	2.6	2.9	3.5	3.1	3.0	2.9	2.9	2.8
Capital	5.4	5.3	5.3	4.3	4.6	5.1	5.6	5.9	5.9
Accrued spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance 3/	**-4.0**	**-3.9**	**-7.4**	**-4.0**	**-3.5**	**-3.0**	**-2.5**	**-2.0**	**-1.5**
Net Financing 4/	**3.2**	**2.1**	**9.0**	**3.7**	**3.0**	**2.6**	**2.0**	**1.5**	**1.0**
External	4.9	3.4	5.0	2.0	1.4	1.5	0.7	0.4	0.1
Domestic	-1.7	-1.3	4.0	1.7	1.6	1.1	1.3	1.1	1.0
				Panama Canal Authority (ACP)					
Revenue	**5.7**	**6.0**	**5.8**	**5.9**	**5.8**	**5.9**	**5.9**	**6.0**	**6.1**
Expenditure	**4.9**	**5.2**	**5.1**	**4.9**	**4.6**	**4.7**	**4.7**	**4.7**	**4.7**
Current primary expenditure	1.4	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4
Transfers to the government	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Interest payments	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.2	0.7	0.7	0.5	0.3	0.3	0.3	0.3	0.2
Overall Balance	**0.8**	**0.8**	**0.7**	**1.0**	**1.2**	**1.2**	**1.3**	**1.3**	**1.4**
				Consolidated Non-Financial Public Sector					
Revenue and grants 5/	**19.9**	**20.5**	**18.5**	**20.5**	**20.8**	**21.2**	**21.8**	**22.4**	**22.7**
Expenditure 5/	**22.9**	**23.6**	**25.2**	**23.6**	**23.1**	**23.1**	**23.1**	**23.2**	**22.9**
Overall Balance (incl. ACP)	**-3.1**	**-3.1**	**-6.7**	**-3.0**	**-2.3**	**-1.8**	**-1.3**	**-0.7**	**-0.2**
Memorandum Items:									
Primary balance (excl. ACP)	-2.3	-1.4	-4.5	-0.5	-0.4	0.0	0.3	0.8	1.2
Structural primary balance (excl. ACP) 6/	-2.1	-1.4	-4.2	-0.4	-0.4	0.0	0.3	0.8	1.2
Primary balance (incl. ACP)	-1.2	-1.8	-4.6	0.7	0.8	1.2	1.6	2.2	2.6

Sources: Comptroller General; Ministry of Economy and Finance; and IMF staff calculations.

1/ Official presentation excludes the operations of the ACP as it is not part of the NFPS.

2/ Includes the balances of the nonconsolidated public sector and revenue of the decentralized agencies.

3/ Different from Table 3 as it excludes the transfers to other agencies.

4/ Includes staff adjustment for net financing through the change in obligations related to unrecorded expenditure for 2015-2019.

5/ Excludes Panama Canal Authority's transfers to the government

6/ Primary balance adjusted for the output gap.

Table 3. Panama: Summary Operations of the Central Government, 2022–30[1/]

(In percent of GDP)

				Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenues and Grants	**12.1**	**12.7**	**11.0**	**11.6**	**12.0**	**12.3**	**12.9**	**13.5**	**13.7**
Current revenue	12.1	12.1	11.0	11.6	12.0	12.3	12.9	13.5	13.7
Taxes	7.7	7.5	6.7	7.1	7.4	7.8	8.3	8.9	9.1
Direct taxes	4.4	4.6	3.8	4.0	4.2	4.4	4.5	4.5	4.5
Income tax	4.0	4.4	3.3	3.5	3.8	3.9	4.0	4.0	4.1
Tax on wealth	0.4	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Indirect taxes	3.3	3.0	3.0	3.2	3.2	3.4	3.8	4.4	4.5
Import tax	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
ITBMS	1.9	1.6	1.4	1.5	1.5	1.7	2.1	2.7	2.9
Petroleum products	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other tax on domestic transactions	0.7	0.7	0.9	1.0	1.0	1.0	1.0	1.0	1.0
Nontax revenue	4.5	4.6	4.3	4.5	4.5	4.5	4.6	4.6	4.6
Dividends	2.7	2.7	2.3	2.6	2.6	2.6	2.5	2.5	2.5
Of which: Panama Canal Authority	2.5	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Panama Canal Authority	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Transfers from decentralized agencies	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other	0.6	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital revenue	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenditure	**16.3**	**16.7**	**18.9**	**17.5**	**17.0**	**16.9**	**16.9**	**17.0**	**16.6**
o/w COVID-19 related expenditure	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current	11.3	12.5	14.4	13.7	13.3	12.7	12.2	11.9	11.6
Wages and salaries	5.1	4.9	5.2	4.9	4.6	4.6	4.6	4.7	4.7
Goods and services	1.1	1.1	1.3	0.9	0.8	0.8	0.8	0.8	0.8
Current expenditure of CSS	0.5	1.1	1.0	2.5	2.5	2.4	2.4	2.4	2.4
Of which: State contribution due to 2025 reform 1/				1.0	1.0	1.0	1.0	1.0	0.9
Transfers to public and private entities	2.9	2.9	4.1	1.9	2.3	1.8	1.5	1.2	1.0
Interest	1.7	2.6	2.9	3.5	3.1	3.0	2.9	2.9	2.8
Domestic	0.4	0.3	0.3	0.7	0.4	0.3	0.3	0.2	0.2
External	1.3	2.3	2.6	2.8	2.7	2.8	2.6	2.7	2.6
Capital	4.9	4.2	4.4	3.7	3.7	4.2	4.7	5.0	5.0
Accrued spending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Savings 2/	0.8	-0.4	-3.5	-2.1	-1.4	-0.4	0.6	1.5	2.0
Overall Balance	**-4.1**	**-4.0**	**-7.9**	**-5.8**	**-5.1**	**-4.6**	**-4.0**	**-3.5**	**-3.0**
Financing (net)	3.3	2.1	6.4	5.5	4.6	4.1	3.5	3.0	2.5
External	4.9	3.4	3.3	2.0	1.4	1.5	0.7	0.4	0.1
Of which: Multilateral lenders	1.3	0.9	1.3	1.0	0.9	0.9	0.8	0.7	0.6
Of which: Private creditors	5.3	4.0	3.9	3.0	2.8	2.5	2.2	2.0	1.7
Of which: Other lenders	-1.8	-1.5	-1.9	-2.0	-2.3	-1.9	-2.2	-2.3	-2.2
Domestic	-1.6	-1.3	3.1	3.5	3.2	2.6	2.8	2.6	2.4
Of which: Net credit from banks	0.5	-0.6	1.7	0.2	0.1	0.1	0.1	0.1	0.0
Of which: Net credit from non-banks	-0.3	-0.5	1.8	1.9	1.8	1.4	1.7	1.5	1.4
Of which: Other lenders	-1.8	-0.3	-0.4	1.4	1.2	1.1	1.0	1.0	0.9
Memorandum Items:									
Primary balance	-2.4	-1.4	-4.9	-2.3	-1.9	-1.6	-1.2	-0.6	-0.2
GDP (in millions of US$)	76,523	83,382	86,260	90,566	96,072	101,913	108,110	114,683	121,655

Sources: Comptroller General; Ministry of Economy and Finance; and IMF staff calculations.

1/ Article 84, point 14 of Law 462

2/ Current revenues and grants less current expenditure.

Table 4. Panama: Public Debt, 2022–30

(In percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
				Central Government					
Gross Debt	57.9	56.4	62.3	65.1	66.5	67.2	67.4	67.0	66.1
of which: held by social security (CSS)	5.2	4.9	4.7	5.9	6.8	7.7	8.6	9.4	10.1
Domestic	9.7	8.4	11.0	12.7	14.1	15.0	16.0	16.9	17.6
of which: unrecorded arrears (prel).	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: floating debt (prel.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	48.2	48.0	51.3	52.5	52.3	52.3	51.3	50.1	48.6
Financial Assets	7.0	7.2	6.6	6.7	6.9	7.2	7.4	7.6	7.8
Deposits 1/	3.5	3.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Sovereign Wealth Fund	1.7	1.8	1.9	2.2	2.4	2.7	3.0	3.3	3.7
Loans	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7
SDR holdings	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.5	0.5
Net Debt	50.8	49.2	55.7	58.4	59.5	60.1	60.0	59.4	58.3
				Non-Financial Public Sector					
Gross Debt	52.7	51.5	57.6	59.5	60.2	60.5	60.2	59.4	58.2
of which: unrecorded arrears (prel.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
of which: floating debt (prel.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Assets	13.8	13.6	16.7	16.4	16.0	15.7	15.4	15.2	15.0
Central government	7.0	7.2	6.6	6.7	6.9	7.2	7.4	7.6	7.8
Decentralized institutions (incl. CSS) 1/	6.7	6.4	10.1	9.6	9.1	8.6	8.1	7.6	7.2
Net Debt	38.9	37.9	40.9	43.1	44.2	44.8	44.8	44.2	43.2
Memorandum Items:									
Net Debt as defined under SFRL 2/	51.0	49.7	55.7	57.4	57.8	57.7	57.2	56.1	54.6

Sources: Ministry of Finance and IMF staff calculations.

1/ Deposits at the National Bank (BNP).

2/ Non-Financial Public Sector gross debt minus net assets of the Sovereign Wealth Fund (FAP).

Table 5. Panama: Summary Accounts of the Banking System, 2022–30

(In percent of GDP)

				Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
	(in millions of US dollars at end of period)								
Net Foreign Assets	**6,290**	**7,286**	**8,450**	**8,810**	**9,191**	**9,620**	**10,069**	**10,535**	**11,017**
Short-term foreign assets, net	6,290	7,286	8,450	8,810	9,191	9,620	10,069	10,535	11,017
National Bank of Panama	4,626	4,474	4,812	5,053	5,361	5,688	6,035	6,403	6,793
Rest of banking system	1,664	2,811	3,638	3,757	3,830	3,932	4,034	4,132	4,224
Long-term foreign liabilities	0	0	0	0	0	0	0	0	0
Net Domestic Assets	**40,876**	**41,486**	**45,851**	**45,683**	**48,615**	**51,701**	**54,980**	**58,469**	**62,182**
Public sector (net credit)	-9,236	-9,757	-7,854	-7,984	-8,149	-8,325	-8,512	-8,710	-8,920
Central government (net credit)	-1,739	-2,162	-678	-807	-973	-1,149	-1,336	-1,534	-1,744
Rest of the public sector (net credit)	-7,497	-7,595	-7,176	-7,176	-7,176	-7,176	-7,176	-7,176	-7,176
Private sector credit	57,758	59,775	62,112	65,212	69,177	73,383	77,845	82,578	87,599
Private capital and surplus	-11,182	-12,200	-13,199	-13,858	-14,700	-15,594	-16,542	-17,548	-18,615
Other assets (net)	3,536	3,668	4,792	2,312	2,288	2,238	2,190	2,149	2,118
Liabilities to Private Sector	**47,669**	**49,221**	**51,902**	**54,493**	**57,806**	**61,321**	**65,049**	**69,004**	**73,199**
Total deposits	46,787	48,466	51,041	53,589	56,847	60,303	63,970	67,859	71,985
Demand deposits	9,239	9,337	9,236	9,697	10,286	10,912	11,575	12,279	13,025
Time deposits	23,679	26,068	28,841	30,281	32,122	34,075	36,146	38,344	40,675
Savings deposits	13,869	13,061	12,964	13,611	14,439	15,317	16,248	17,236	18,284
Bonds	882	756	861	904	959	1,017	1,079	1,145	1,215
Deposits as % of private sector credit	81.0	81.1	82.2	82.2	82.2	82.2	82.2	82.2	82.2
	(12-month change in relation to liabilities to the private sector at the end of the previous period)								
Net foreign assets	-9.4	2.1	2.4	0.7	0.7	0.7	0.7	0.7	0.7
Net domestic assets	2.1	1.3	8.9	-0.3	5.4	5.3	5.3	5.4	5.4
Public sector credit (net)	-2.7	-1.1	3.9	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Private sector credit	7.2	4.2	4.7	6.0	7.3	7.3	7.3	7.3	7.3
Private capital and surplus	0.7	2.1	2.0	1.3	1.5	1.5	1.5	1.5	1.5
Other assets (net)	-1.7	0.3	2.3	-4.8	0.0	-0.1	-0.1	-0.1	0.0
Liabilities to the private sector	-1.9	3.3	5.4	5.0	6.1	6.1	6.1	6.1	6.1
	(12-month percent change)								
Memorandum Items:									
M2 1/	-1.9	3.3	5.4	5.0	6.1	6.1	6.1	6.1	6.1
Net domestic assets	2.6	1.5	10.5	-0.4	6.4	6.3	6.3	6.3	6.4
Public sector credit (gross)	-6.2	2.4	42.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector credit	6.4	3.5	3.9	5.0	6.1	6.1	6.1	6.1	6.1
Demand deposits as % of total deposits	19.7	19.3	18.1	18.1	18.1	18.1	18.1	18.1	18.1
	(In percent of GDP)								
Total deposits	61.1	58.1	59.2	59.2	59.2	59.2	59.2	59.2	59.2
Credit to private sector	75.5	71.7	72.0	72.0	72.0	72.0	72.0	72.0	72.0

Sources: Superintendency of Banks; National Bank of Panama; Savings Bank; and IMF staff calculations.

1/ M2 comprises bank deposits; estimates of U.S. currency in circulation are not available.

Table 6. Panama: Financial Soundness Indicators, 2015–24
(In percent of GDP, end-of-period)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024Q3
Core FSIs [1/]										
Regulatory capital to risk-weighted assets	14.9	15.3	16.0	15.7	15.2	15.7	15.8	15.3	15.1	15.7
Tier 1 capital to risk-weighted assets	14.3	16.3	17.0	16.9	16.4	17.1	16.8	16.1	15.9	16.4
Nonperforming loans net of provisions to capital	8.4	8.8	10.5	8.6	-0.3	-5.2	-8.7	-5.5	-3.3	-2.9
Capital to assets (leverage ratio)	10.2	11.4	12.5	12.5	12.7	11.8	12.2	11.8	12.1	12.6
Nonperforming loans to total gross loans	2.2	2.5	3.1	3.3	2.0	2.0	2.3	2.5	2.6	2.4
Provisions to nonperforming loans	35.9	41.2	38.3	53.7	102.4	148.0	173.7	138.6	123.2	122.6
Return on assets	1.5	1.3	1.6	1.6	1.5	0.7	1.0	1.4	1.9	2.0
Return on equity	14.0	11.8	13.4	13.1	11.5	6.4	9.1	12.8	16.4	17.2
Interest margin to gross income	62.9	62.9	60.4	61.5	61.3	62.0	56.9	59.1	59.0	57.1
Noninterest expenses to gross income	50.1	50.0	46.9	46.4	47.7	48.6	48.7	47.1	43.4	41.4
Liquid assets to total assets [2/]	12.0	11.9	13.2	10.3	10.0	10.7	11.4	9.5	9.7	10.0
Liquid assets to short-term liabilities [2/]	29.8	29.9	35.1	29.6	29.0	28.5	32.4	27.7	28.3	29.0
Additional FSIs										
Gross asset position in financial derivatives to capital	0.1	0.1	0.2	0.1	0.2	0.6	0.2	0.7	1.2	0.5
Gross liability position in financial derivatives to capital	0.8	1.3	0.9	0.7	0.4	0.4	0.4	0.6	0.5	0.8
Trading income to total income	0.9	1.6	0.7	0.3	1.9	2.8	2.7	-0.6	-0.4	0.8
Personnel expenses to noninterest expenses	46.7	46.2	46.8	46.4	45.8	46.2	44.2	42.7	44.6	45.4
Customer deposits to total (noninterbank) loans	85.3	83.1	82.5	80.8	81.5	89.4	111.5	102.9	103.2	99.6

Source: IMF Financial Soundness Indicators.

1/ Data are for general license banks only.
2/ The statutory Legal Liquidity Index (LLI) used by the authorities defines a 30 percent minimum requirement on liquid assets (including cash and certain debt securities) as a share of qualifying deposit with a time horizon of 186 days whereas these two indicators ("liquid assets to total assets" and "liquid assets to short-term liabilities") are standard indicators based on the IMF's Financial Soundness Indicators Guide, which defines short-term liabilities as liabilities falling due within three months or less plus the net market

Table 7. Panama: Summary Balance of Payments, 2022–30

(In percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
				Projections					
				(In percent of GDP)					
Current Account	**0.0**	**-3.1**	**1.9**	**-0.9**	**-1.8**	**-2.5**	**-2.5**	**-2.5**	**-2.5**
Merchandise trade, net	-8.8	-11.8	-7.0	-9.2	-10.1	-11.4	-11.8	-12.2	-12.7
Colón Free Zone and Export Processing Zones	-0.2	-4.3	2.4	2.1	1.2	0.5	0.5	0.5	0.5
Other	-8.6	-7.5	-9.4	-11.3	-11.3	-11.9	-12.3	-12.7	-13.2
Exports, fob	26.7	24.2	22.1	19.5	18.7	17.9	17.9	17.9	17.9
Of which: copper	3.7	3.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Of which: gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Imports, fob	35.5	36.0	29.2	28.7	28.7	29.3	29.7	30.1	30.6
Of which: oil	8.7	5.5	1.1	1.0	0.9	0.9	0.8	0.8	0.8
Services, net	12.8	14.2	14.5	15.1	15.7	16.5	17.0	17.5	17.9
Travel, net	4.9	5.1	5.5	5.5	5.7	5.8	5.9	6.0	6.1
Transportation, net	6.9	7.8	7.6	8.1	8.4	8.9	9.2	9.5	9.8
Of which: Canal	5.5	4.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other services, net	1.0	1.3	1.4	1.5	1.6	1.8	1.9	2.0	2.1
Income, net	-4.0	-5.5	-5.6	-6.9	-7.5	-7.6	-7.7	-7.8	-7.8
Primary, net	-3.9	-5.3	-5.4	-6.9	-7.5	-7.6	-7.7	-7.8	-7.8
Of which: Direct investment	-2.2	-3.5	-3.7	-2.7	-2.9	-3.0	-2.9	-2.9	-2.9
Secondary, net	-0.1	-0.2	-0.2	0.1	0.0	0.0	0.0	0.0	-0.1
Of which: Workers' remittances	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.3
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-6.5**	**-3.5**	**-3.4**	**-4.5**	**-4.4**	**-5.1**	**-4.0**	**-3.7**	**-3.5**
Foreign direct investment, net	-3.0	-1.7	-2.8	-2.9	-2.8	-2.7	-2.6	-2.6	-2.5
Of which: Reinvested earnings	-1.4	-1.3	-2.0	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6
Portfolio investment, net	-4.3	-1.7	0.8	0.8	0.7	0.2	0.5	0.6	0.5
Financial derivatives, net	0.1	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	3.2	-0.1	-1.4	-2.7	-2.6	-2.9	-2.3	-2.0	-1.7
Reserve assets, net	-2.5	-0.1	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Net Errors and Omissions	**-6.6**	**-0.4**	**-5.4**	**-3.6**	**-2.6**	**-2.6**	**-1.5**	**-1.2**	**-1.0**
Memorandum Items:									
Exports of goods and services (annual percent change)	29.8	6.1	-1.4	2.2	3.1	3.6	5.3	5.1	5.1
Imports of goods and services (annual percent change)	33.9	10.1	-14.0	6.3	3.2	5.1	4.8	4.8	4.9
Oil trade balance (percent of GDP)	-4.8	-3.5	-1.1	-1.0	-0.9	-0.9	-0.8	-0.8	-0.8

Sources: INEC, and IMF staff calculations.

Table 8. Panama: External Vulnerabilities Indicators, 2022–30

(In percent, unless otherwise indicated)

				Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Financial Indicators									
Broad money (12-month percent change)	-1.9	3.3	5.4	5.0	6.1	6.1	6.1	6.1	6.1
Private sector credit (12-month percent change)	6.4	3.5	3.9	5.0	6.1	6.1	6.1	6.1	6.1
Deposit rate (6-month; in percent) 1/	1.8	3.8	4.3	3.4	3.4	3.4	3.4	3.4	3.4
External Indicators									
Merchandise exports (12-month percent change)	21.3	-1.5	-5.1	-3.2	-3.2	-3.2	0.8	0.7	0.7
Merchandise imports (12-month percent change)	34.0	10.6	-16.3	6.6	2.7	5.0	4.6	4.5	4.7
Current account balance (in percent of GDP)	0.0	-3.1	1.9	-0.9	-1.8	-2.5	-2.5	-2.5	-2.5
Capital account balance (in percent of GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance (in percent of GDP)	-6.5	-3.5	-3.4	-4.5	-4.4	-5.1	-4.0	-3.7	-3.5
Of which: direct investment	-3.0	-1.7	-2.8	-2.9	-2.8	-2.7	-2.6	-2.6	-2.5
Non-Financial Public Sector external debt (in percent of GDP)	46.7	46.6	50.0	51.2	51.1	51.1	50.3	49.1	47.6
In percent of exports of goods and services 2/	100.0	102.5	115.4	121.3	124.7	127.7	126.4	124.6	122.0
External interest payments									
In percent of exports of goods and services 2/	5.2	8.9	9.9	-0.2	-0.5	-0.3	-0.5	-0.3	-0.3
External amortization payments									
In percent of exports of goods and services 2/	129.2	135.8	146.4	143.0	146.3	148.9	150.7	151.0	150.5
REER, percent change (average) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross international reserves at end of period									
In millions of U.S. dollars 3/	6,876	6,757	6,856	7,097	7,405	7,732	8,079	8,447	8,837
In months of imports of goods and services	-3.9	-5.3	-5.4	-6.9	-7.5	-7.6	-7.7	-7.8	-7.8
In percent of broad money 4/	-2.2	-3.5	-3.7	-2.7	-2.9	-3.0	-2.9	-2.9	-2.9
In percent of short-term external debt 5/	-0.1	-0.2	-0.2	0.1	0.0	0.0	0.0	0.0	-0.1
Memorandum Items:									
Nominal GDP (in millions of US$)	76,523	83,382	86,260	90,566	96,072	101,913	108,110	114,683	121,655
Exports of goods and services (in millions of US$) 2/	35,717	37,905	37,376	38,215	39,404	40,818	42,980	45,189	47,482
Imports of goods and services (in millions of US$) 2/	32,646	35,927	30,887	32,833	33,883	35,614	37,317	39,093	41,004

Sources: Ministry of Economy and Finance, and IMF staff calculations.

1/ One-year average for the banking system, comprises general license banks, excluding offshore banks.

2/ Includes transactions conducted in the Colón Free Zone.

3/ Corresponds to gross foreign assets of the National Bank of Panama (a publicly-owned commercial bank).

4/ M2 consists of resident bank deposits only; estimates of U.S. currency in circulation are not available.

5/ Excludes off-shore banks' external liabilities. Short-term public external debt includes next year amortization.

6/ Negative sign indicates depreciation.

Annex I. Panama's Pension System and Major Reform[1]

1. Panama's pension system needed to be reformed. Before the 2025 reform, the system consisted of two primary components: a defined benefit (DB) scheme, which operated on a pay-as-you-go (PAYG) basis, supported by accumulated deposits, and a mixed scheme (which had both a DB and a defined contribution (DC) component), which was running surpluses. The DB scheme had struggled with solvency issues due to demographic pressures, insufficient and depleted funding, and the lack of new entrants.

2. This is not the first time the pension system has been reformed. Another major reform took place in 2005. This annex first describes the pension system prior to 2005. It then discusses the 2005 pension reforms and explains the challenges that remained thereafter, before turning to the most recent reforms.

Panama's Pension System Before 2005

3. Prior to 2005, Panama's pension system operated primarily as a PAYG defined benefit scheme managed by the CSS. Established in 1941, the CSS was responsible for administering social security programs, including pensions for old age, disability, and survivors.

4. Under this system, both employees and employers contributed a percentage of employees' salary to fund current retirees' pensions. Upon reaching retirement age—62 for men and 57 for women—workers who had met the minimum contribution requirements were eligible to receive a monthly pension. The pension amount was calculated based on the worker's average earnings over their highest-paid years and the total number of contribution years. Specifically, retirees received 60 percent of their average monthly earnings from their best 10 years, with an additional 1.25 percent for each year of contributions beyond 20 years.

5. Structural deficiencies further weakened the system, as contribution rates of 6.75 percent for employees and 2.75 percent for employers proved insufficient to cover rising pension liabilities. Generous benefit calculations, based on a worker's highest-earning years rather than career averages, resulted in disproportionately high payouts. Additionally, early retirement policies allowed some workers to exit the workforce before the standard retirement ages of 57 for women and 62 for men, with benefits often replacing 80 to 100 percent of pre-retirement wages.

6. Another major challenge has been the large informal economy, which left many workers outside the pension system, reducing the funding base. Even within the formal sector, weak compliance from some employers and employees exacerbated financial difficulties. Compounding these issues, the CSS faced political interference and administrative inefficiencies, leading to poor financial management, weak investment strategies, and a lack of long-term sustainability planning.

[1] Prepared by Olusegun Akanbi.

7. By the early 2000s, actuarial projections indicated that the pension system was heading toward insolvency. Without reform, growing deficits would make it impossible to meet pension obligations, putting future retirees at risk. Addressing this crisis required urgent measures, including increasing contributions, reducing benefits, and restructuring the system to ensure long-term financial stability.

The 2005 Pension Reforms

8. In 2005, Panama introduced structural reforms to stabilize its pension system, moving away from a purely PAYG structure, although the retirement age remained unchanged. The key elements of the reform were:

Creation of a Mixed Scheme

9. The pension system was divided into two distinct schemes:

- *DB Scheme:* This continued to operate on a PAYG basis for older workers. Workers older than 35 as of January 1, 2006, remained automatically within this scheme, retaining their defined benefit pensions financed through intergenerational transfers.

- *Mixed Scheme:* This applied to workers aged 35 or younger as of January 1, 2006, who chose to voluntarily switch to this scheme by December 31, 2007. Those who did not actively choose to switch were automatically kept in the DB scheme. The enrolment in the mixed scheme was mandatory for all new workers entering the labor force from 2008 onwards.

10. The mixed scheme had two pillars—a DB pillar and a DC pillar:

- *DB Pillar—Minimum Guarantee:* The DB pillar provided a minimum pension guarantee beneath which no mixed scheme pension could fall. The pension floor was 60 percent of the base salary (the average salary of the ten highest contributory years, capped at 500 dollars per month), plus 1.25 percent for each year of contributions beyond 20 years. To qualify for the DB–pillar guarantee, a worker had to have made at least 240 monthly contributions (i.e., contributed over 20 years).

- *DC Pillar*: All employee and employer contributions went into an individual account, earned returns according to the CSS investment policy, and were converted into an annuity at retirement. At payout, the retiree received whichever was higher: the DB–pillar guarantee (60 percent plus 1.25 percent multiplied by extra years), or the DC–account annuity.

11. This shift aimed at enhancing financial sustainability. It did so by reducing dependency on intergenerational transfers, linking pensions directly to lifetime contributions and investment performance, and ensuring transparency regarding retirement benefits.

Higher Contribution Rates

12. Employee and employer contributions were incrementally increased to bolster funding. Prior to the reform, contributions were deemed insufficient to cover future pension liabilities. The reform mandated a phased increase in contribution rates culminating in 2010, ensuring that workers and businesses contributed more to support the system's long-term sustainability. Employee contributions increased from 6.75 to 9.25 percent of wages, employer contributions rose from 2.75 to 4.25 percent.[2]

Benefit Adjustments

13. The 2005 reforms also revised the methodology for calculating pension benefits. Before the reform, pensions were determined based on the worker's highest earning years, resulting in relatively generous and financially unsustainable benefits. To enhance sustainability, the reform introduced a new calculation method based on career-average earnings. This change extended the earnings period used to calculate pensions, thus reducing pension liabilities. However, pension eligibility criteria—such as retirement age and contribution requirements—remained unchanged.

- DB Scheme: Pension amounts under this scheme were now calculated based on average earnings across a worker's career, rather than peak-earning years, lowering overall liabilities.

- Mixed Scheme: Under this scheme, pensions were calculated by dividing the total amount of accumulated contributions and their investment returns in the individual's account by their actuarially determined life expectancy at retirement. The calculation incorporates a discount rate defined by the CSS. The pension could not be less than the benefit under the DB pillar.

Recent Challenges to Panama's 2005 Pension Reform

14. Despite the 2005 reforms, Panama's pension system continued to encounter significant financial and structural difficulties:

- Depletion of the DB scheme: The DB scheme faced increasing financial pressures due to demographic shifts, including population aging, and a decreasing number of active contributors. Given its pay-as-you-go nature, the growing imbalance between incoming contributions and outgoing pension benefits exacerbated funding shortfalls.

- Surpluses in the mixed scheme: The mixed scheme generated surpluses because younger workers contributed without yet receiving benefits.

- Legal restrictions on cross-subsidization: Panama's regulatory framework explicitly prohibited the use of surplus funds from the DC scheme to subsidize the DB scheme. While this rule

[2] Article 153 of Law 51 of December 27, 2005.

enforces financial prudence within the DC subsystem, it simultaneously deepened liquidity challenges within the DB scheme.

- Informal sector and contribution base challenges: A substantial portion of Panama's labor force remains engaged in informal employment, resulting in limited or nonexistent contributions to the pension system. This significantly weakened the financial sustainability and stability of the social security system by narrowing the contributor base.

New Pension Reforms – March 2025

15. Law 462 of March 2025 introduces significant modifications to Law 51 of 2005, which governs the CSS. The reform made the following changes but again kept the retirement age unchanged.[3]

Change in Pension System

16. The new law introduces significant changes to the pension system by establishing a third scheme: the Single Capitalization System with Solidarity Guarantee (Sistema Único de Capitalización con Garantía Solidaria, SUCGS). This third pension scheme operates alongside the previous schemes during a transition period.

17. The new scheme consists of two components:

- *Contributory Component of Solidarity Capitalization*. In this component, pensions are entirely based on the amounts accumulated in individual accounts. Each worker has an individual account where contributions are recorded. The accumulated balance is then converted into a pension using a fixed formula.[4]

- *Non-Contributory Solidarity Component*. Under this component a minimum benefit pension, or a solidarity benefit pension, may be assigned. If, upon reaching retirement age, an individual's accumulated funds are insufficient to secure a minimum pension, the State assists by topping up the amount, provided that the required criteria are met. Those who made fewer than 120 pension contributions receive the earned/calculated pension amount, even if it is below the minimum of $144. Those with 120-240 contributions and a calculated pension below $144 are guaranteed a minimum pension of $144. For those with more than 240 contributions, if the calculated pension is above $144 but below the guaranteed solidarity pension,[5] a top-up amount will be added to match the guaranteed solidarity pension amount. These pensions are

[3] The retirement age remains at 57 years for women and 62 years for men. Although an initial proposal included raising the retirement age by three years (to 65 for men and 62 for women), the final version of the reform kept it unchanged. An actuarial review is scheduled in six years to assess possible adjustments and align the pension system with the rise in life expectancy, ensuring the sustainability of the system and maintaining adequate funds for retirees.

[4] The formula is (accumulated balance / 1,000) × an actuarial factor, which varies based on the worker's age and gender.

[5] The guaranteed solidarity pension equals 1.84 times the guaranteed minimum pension ($144).

for life and indexed annually based on the CPI or the moderate urban poverty line, capped at 3 percent per year.

18. The transition to the new system—SUCGS—unfolds in three stages.

- First, all pre-2008 entrants who remain in the exclusively DB scheme continue under the old Law 51 rules, with no voluntary opt-in option. On March 1, 2036, however, the CSS will cease paying old-age compensation under Law 51 and replace it with the minimum pension under the new system.[6] It will also recalculate all remaining DB pensions under the new capitalization formula, thereby migrating all legacy DB beneficiaries into SUCGS at that point.

- Second, participants in the mixed scheme (those who entered between 2008 and March 18, 2025) have a one-year election window after enactment of Law 462 (i.e. until March 18, 2026) to opt into SUCGS. Once made, this choice is irrevocable. Anyone in the mixed scheme who does not opt in by that deadline will be automatically transferred into the new scheme on March 1, 2036, with no further right to remain under the old mixed scheme rules.

- Third, all workers hired on or after March 18, 2025, are enrolled in SUCGS from day one, with no option to join the legacy DB or mixed schemes.

19. Self-employed workers will also participate in the SUCGS. They will need to contribute to the CSS 9.36 percent of their taxable income for disability, old age, and death benefits, with an additional 8.5 percent optional contribution for health and maternity coverage.[7]

Increase in Contribution Rates

20. The reform increases employer contribution rates to the pension system from 4.25 percent to 7.25 percent, while employee contributions will remain unchanged—at 9.2 percent.[8] The contribution increase occurs in three steps of one percentage point in March 2025, March 2027, and March 2029.

Merging of the Assets of the Pension System

21. The reform creates a new Single Solidarity Fund (SSF) that will finance the economic benefits granted through the legacy DB scheme, the mixed scheme, and the SUCGS.

22. The current reserves of the legacy mixed scheme and defined-benefit scheme will be allocated to the SSF. In practice, this means that the reserves of the mixed scheme can now be used to pay the pensions of the DB scheme. The mixed scheme currently holds reserves of approximately $9 billion, with no beneficiaries yet receiving payouts. Integrating it with the DB

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[6] The current old-age universal basic pension provides a non-contributory safety net for elderly individuals aged 65 and above who are not eligible for a contributory pension through the formal system.

[7] Article 133, point 4 of law 462.

[8] Article 133, point 3 of law 462.

scheme would result in a projected balance of about 9.5 percent of GDP in 2025, sufficient to cover former DB beneficiary payments.

State Contribution to the Pension System

23. The central government will provide a fiscal contribution of $966 million to the SSF. This contribution will be increased annually by up to 4 percent, to support the long-term sustainability of the pension system.[9] The budget shall include a corresponding line item to cover this contribution. The transfer of these funds from the MEF to the CSS account shall be made either as a single annual payment or according to an agreement between both entities, but no later than December 31 of each fiscal year.

Benefits Under the New System

24. Under SUCGS, current DB participants see all their past contributions (15 percent of salary, capped at $2,500 per month) capitalized in an individual account with a guaranteed 4 percent annual yield. Upon retirement, this accumulated balance is converted into a monthly annuity by applying the age-and-gender actuarial factor prescribed in Article 160 of Law 462. Contributions made after March 18, 2025 (13.5 percent of salary plus 18 percent of the "13th month" bonus) continue to accumulate in the same account, earning whatever returns the SSF achieves. Crucially, if the resulting SUCGS annuity falls below what the retiree would have received under the Law 51 DB formula, the CSS pays the higher legacy benefit instead. Thus, no DB participant ever loses ground, and many may gain if market returns and the actuarial conversion exceeds the old benefit.

25. For current mixed-scheme participants, the DB portion of their pension is handled exactly like that of pure DB members: past DB contributions (up to the $500 salary cap) are capitalized at 4 percent and then annuitized via the actuarial factor, with the SUCGS guaranteeing at least the DB-pillar benefit they would have earned under the old mixed formula (60 percent replacement of base salary plus 1.25 percent per excess year, as discussed in paragraph 10 of this Annex). Their DC account balances remain intact and continue to grow with SSF returns. The retiree's total SUCGS pension equals the sum of the converted DB-capitalized annuity and the DC-account annuity. If that combined figure is below what they would have received under the old mixed scheme (DB benefit plus DC drawdown), CSS tops it up to the higher legacy amount. Many mixed scheme participants may receive higher pensions under SUCGS because the 4 percent guaranteed annual yield on pre-2025 DB contributions can exceed the actuarial conversion factors used in the legacy mixed formula. Moreover, all DC contributions made after March 18, 2025, accrue at the actual SUCGS fund return and are converted at 100 percent of the accumulated balance into an annuity—removing the extra actuarial discount previously applied to new contributions.

26. All new entrants (from March 18, 2025, onward) are immediately enrolled in SUCGS as solo capitalization members. Similar to transfers of current DB participants, every contribution

[9] Article 84, point 14 of the law 462.

(13.5 percent of salary plus the 18 percent of bonus) accumulates in an individual account and earns actual SSF returns. At retirement, the entire balance is converted into an annuity via the same age-and-gender actuarial factor. A hard replacement-rate floor of 60 percent of the retiree's reference base salary ensures that even if their account alone would generate less, they still receive this minimum pension.

27. Across all groups, two core guarantees underpin SUCGS. First, the "no-loss" rule (Art. 161) ensures any SUCGS annuity below one's legacy entitlement—whether DB or mixed—is topped up to the higher legacy amount. Second, a universal 60 percent replacement-rate floor of reference base salary applies to everyone, matching the old DB minimum and safeguarding low-income retirees. Together, these provisions mean DB scheme participants maintain or improve their pensions, mixed scheme participants never lose and often gain, and new entrants enjoy transparent accounts with clear floors and actuarial conversions.

Revisions to CSS Investment Framework

28. Under Law 462 and its implementing regulations, the CSS has completely revamped its investment framework. Thus, it seeks to bolster funding adequacy, strengthen risk controls, and enhance transparency.

29. The revised rules permit the CSS to invest up to 75 percent of its assets in government bonds. These can be Panamanian sovereign debt (both domestic and international) and U.S. investment-grade sovereign bonds, with a maximum exposure of 15 percent to any single foreign issuer. Reserves set aside for risk of the Invalidez, Vejez y Muerte (IVM, disability/old-age/death) must be confined to very low-volatility instruments—such as government securities and bank deposits—to preserve capital. A dedicated Alternative Assets envelope allows up to 10 percent of total reserves to be allocated to real estate and infrastructure projects, provided these investments are financed from designated sub-funds.

30. To manage these assets, the Commission on Risks and Investments[10] may appoint external fund managers through a public prequalification process. The CSS may outsource up to 10 percent of its total reserves to external managers. Moreover, no single manager may be assigned more than 20 percent of the externally managed portion. All securities must be held by custodians registered with the Superintendency for Securities Markets, ensuring a strict separation between trading functions and asset custody.

31. Finally, the CSS must follow the prudent person rule, balancing capital preservation with return objectives. It must also comply with rigorous governance standards covering sustainability, AML/CFT, and nonproliferation requirements. CSS officials are subject to civil or criminal liability for any breach of these responsibilities, reinforcing accountability at every level of the investment process.

[10] The Commission will ensure that investment is made under condition of optimal performance, accountability, and security in terms of recovery.

Annex II. The Panama Canal Expansion[1]

1. The Panama Canal ("the Canal") is a critical maritime passage that links the Atlantic and Pacific Oceans and facilitates 6 percent of global maritime trade. Over 13,000 ships transit its waters annually, carrying more than 500 million tons of cargo.

2. In 2023–24, the Canal was hit by a drought, which caused a significant reduction in traffic. The Panama Canal is not a sea-level canal like the Suez Canal. It operates through a lock system that lifts and lowers vessels as they navigate different elevations, and the locks are filled using water from two large artificial reservoirs, Lake Gatún and the smaller Lake Alajuela. As the water level in the lakes dropped, the Panama Canal Authority (ACP) reduced the number of transits and the maximum allowed draft.

3. To combat future drought-related disruptions, the ACP is advancing the $1.6 billion Rio Indio Reservoir Project, designed to create a third reservoir with a capacity of 1.25 billion cubic meters. This should secure a stable water supply during future droughts and increase the supply of drinking water.

Previous Expansions of the Canal

4. Between 2000 and 2024, Panama invested approximately $15 billion in the Canal's operation and development. A significant portion of this investment was directed toward the Panama Canal Expansion Program.

5. Key to the Panama Canal Expansion Program was the construction of new, larger "Neopanamax" locks. As the global economy expanded rapidly, the Canal's original locks remained unchanged, preventing it from accommodating the larger vessels that were becoming the new standard in global trade. This limitation became increasingly evident before 2016, when the Canal's toll revenue growth lagged the broader expansion of Panama's economy. The ratio of Canal revenue to GDP declined as other sectors—such as finance, real estate, and construction—grew at a much faster pace. The completion of the Neopanamax locks in 2016, at a cost of $5.2 billion, allowed the Canal to accommodate ships of up to 1,200 feet (366 meters) long, 168 feet (51 meters) wide, and capable of carrying up to 14,000 containers—nearly three times the capacity of the original Panamax vessels. This significantly increased the Canal's throughput. In August 2023, a new record was set, with the largest ship ever to transit—17,640 TEU.

6. Following the Neopanamax expansion, toll revenues relative to GDP began to rise, reversing the previous trend. Between 2016 and 2024, toll revenue grew at an average rate of 7.5 percent, surpassing the country's nominal GDP growth of 5.4 percent. It is interesting to note that, even though total revenues grew with higher cargo volumes, the toll per ton in real terms has

[1] Prepared by Maylin Sun.

stayed the same as in the late 2010s. This suggests the expansion's financial gains came from moving more goods, not from higher toll rates.

7. In 2022, the ACP introduced a dynamic pricing strategy. Under this dynamic pricing, transit fees are based on three components: a minimum fixed rate determined by the lock system used (Panamax or Neopanamax), a fixed fee based on vessel type and size using (for most types) the Panama Canal Universal Measurement System (PC/UMS), and a variable charge that adjusts with supply and demand conditions.[2] Under normal circumstances, a fully loaded Neopanamax vessel with a 10,000 TEU capacity (carrying 10,000 fully loaded containers) pays approximately $720,000, or $72 per TEU.[3]

The Canal's Water Crisis: Drought Challenges and Future Solutions

8. In 2023-24, the Canal's operations were hit by a severe drought, triggered by El Niño. The drought reduced the water level in Gatún Lake, which provides the water necessary to operate the locks each time a ship passes through. Each transit uses on average 200 million liters of water, equivalent to the contents of 80 Olympic-size swimming pools. The reservoir also provides drinking water for more than 50 percent of the country. According to the ACP, the average November water level at Gatún Lake over the past five years was 86.7 feet. However, in November 2023, its depth had decreased to 79.8 feet

9. In response, the ACP reduced the number of ships allowed through the Canal, as well as their maximum draft. The number of ships dropped from 36 to 38 per day normally to 22 to 26 per day between October 2023–March 2024. The ACP also lowered the maximum allowed draft to 44 ft, down from the regular 50 ft, reducing some large ships' loads by up to 40 percent. When water levels fall below a certain point, the maximum allowed draft must be reduced to stop vessels from running aground. The restrictions were gradually lifted from April 2024 as the rainy season got underway. By September 2024, the Canal had returned to operating at full capacity.

10. The ACP and Panamanian officials also began exploring further expansion plans. To improve the Canal's resilience against future droughts and keep up with the ever-growing demands of global trade, the ACP is now advancing the $1.6 billion Rio Indio Reservoir Project. This project aims to create a third reservoir of 1.25 billion cubic meters that will provide a steady and reliable freshwater supply, including in periods of drought. It will also improve the storage, distribution and reuse of water. It is expected to allow the Canal to maintain the usual 36–38 transits per day during droughts. The project is currently under review and, if it goes ahead, is expected to be completed by 2030 or 2031. It is likely that at least one more El Niño will occur before then.

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[2] https://pancanal.com/en/maritime-services/maritime-tariff/

[3] This makes the Panama Canal more expensive than the Suez Canal, which calculates tolls based on Suez Canal Net Tonnage (SCNT) rather than container volume. A similarly sized vessel transiting the Suez Canal would pay around $575,000 or $5.75 per SCNT ($57.5 PER TEU). It should be noted that the Suez Canal is a sea-level canal, making it significantly cheaper to operate.

The Canal's Contribution to Panama's Economy

11. The Canal is one of the key engines of Panama's economy. It accounts for approximately 6 percent of Panama's GDP, with 64 percent derived from tolls and 36 percent from ancillary services, including cargo handling, ship repairs, and tourism. The logistics sector, which is closely linked to Canal operations, contributed 11.5 percent to GDP in 2023, driven by growth in port activities, warehousing, and transportation. In terms of employment, the Canal and its indirect and induced interactions with other sectors and economic agents generate almost 55 thousand jobs, equivalent to 2.9 percent of total employment.

12. The Canal is also a key contributor to exports and has helped attract FDI. The Canal accounts for 32 percent of total services exports and 25 percent of exports of services and domestically produced goods. Its strategic location and well-developed logistics infrastructure have positioned Panama as a regional trade hub, attracting substantial foreign direct investment (FDI). In 2023, the country received $2.3 billion in FDI, with logistics and finance among the primary investment sectors.

13. The Panamanian government receives substantial revenue from the Canal. On average, about 3 percent of GDP in government nontax revenues come from the Canal—primarily through tolls charged to ships transiting the waterway. Almost a quarter of the government's annual income is linked to the Canal's activity,[4] with dividends received being the most relevant source of public income. In recent years, tolls have accounted for about 1.9 percent of GDP annually, while the remaining revenues (1.1 percent of GDP) come from the Canal's operations through related sectors such as port services, logistics, and tourism. Since 2014, distributions have reached close to $20bn. These earnings have contributed significantly to the national budget and have helped fund national infrastructure projects, public services, and social programs.

[4] An IDB study covering the year 2022 estimated that—taking into account the combined direct, indirect and induced effects—23.6 percent of the government's annual income is explained by the total contribution of the Canal's activity.

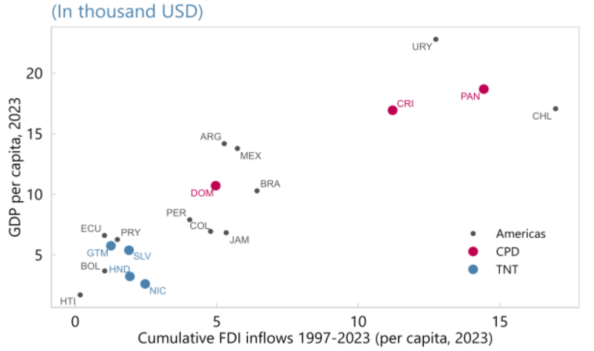
Annex III. Strengthening Governance and Attracting FDI

1. **A key factor in Panama's rapid economic growth and convergence toward advanced economies over the past 25 years has been its ability to attract significant FDI inflows.** Within CAPDR, Costa Rica, Panama, and the Dominican Republic (CPD) have made progress in closing gaps with income levels in advanced economies. A recent study[1] attributes this progress in convergence to balance of payments (BOP) inflows: CPD received large FDI inflows that boosted investment and labor productivity. These positive dynamics in BOP inflows were in turn associated with stronger governance and lower crime.

2. **FDI inflows to Panama have slowed significantly since 2019.** The end of the construction boom and the completion of the Cobre Panamá mine, both in 2019, combined with the pandemic to conclude an era of high FDI inflows. In the absence of major new drivers, FDI inflows are expected to settle at a significantly lower level in the forthcoming period (around 2-4 percent of GDP annually, compared with 7–9 percent of GDP pre-2019).

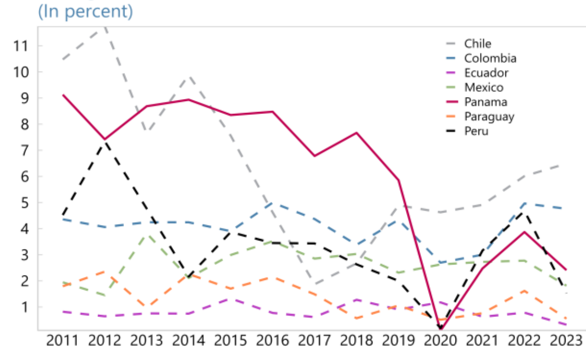
3. **Strengthening governance, transparency, and the anti-corruption framework would help attract more FDI.** International assessments of governance in Panama suggest several areas for improvement: further reinforcing anti-corruption legislation and enforcement mechanisms, and strengthening the rule of law, including judicial independence and the efficiency of the justice system. Additionally, refining appointment processes for senior government and state institution positions to emphasize merit and technical expertise could raise public sector efficiency and help bolster public confidence. Continued efforts to enhance transparency in fiscal management, including broader access to high-quality fiscal data, would also support these objectives.

Panama: FDI Inflows Per Capita 1997-2023 and GDP Per Capita 2023
(In thousand USD)



Source: Penn World Tables 10.0; Worldwide Governance Indicators.

Panama & Selected Economies: Foreign Direct Investment to GDP
(In percent)



Source: National authorities and IMF staff calculations.

[1] See Bakker (forthcoming), "What explains growth differentials in CAPDR countries?".

Annex IV. Implementation of Past IMF Policy Advice

The authorities' macroeconomic and financial policies remained largely in line with past Fund advice in 2024, despite the need for the new government to reset the fiscal consolidation effort. The authorities continue their efforts to strengthen financial integrity and made significant progress on improving the quality and timeliness of statistics.

1. Fiscal Policy. A revised SFRL has been adopted, in line with IMF recommendations. Recent initiatives to support revenue mobilization—such as the launch of a new LTU in July 2023, and new, state-of-the-art, scanners at customs checkpoint—and the goal of reversing the steady decline in the revenue-to-GDP ratio are in line with past advice. However, a recommended comprehensive, annual tax expenditure review to assess the costs and benefits of regressive exemptions and their rationalization is pending.

2. Financial Integrity and Tax Transparency. In October 2023, the FATF removed Panama from the grey list after all remaining issues were addressed. The FATF encouraged the authorities to further strengthen the AML/CFT regime by i) enhancing the searchability of the UBO registry to allow searches based on the name of the legal person or natural person, as well as on the name of the beneficial owner(s), and ii) increasing the use of financial intelligence products (intelligence and strategic reports) by competent authorities. Moreover, sectoral risk assessments of FinTech institutions and virtual asset service providers are needed to identify and assess potential threats and risks arising from these sectors.

3. Financial Sector Soundness and Reforms. The authorities have been making good progress on implementing the recommendations of the 2023 FSAP. They continue to undertake stress tests and develop their stress test methodology, in line with staff advice. The authorities have adopted a regulation on the Capital Conservation Buffer (CCB), which will be phased in by 2026, and are preparing the introduction of a capital surcharge for D-SIBs in 2025. The Financial Stability Report continues to evolve and is now published twice a year. It now includes contributions from other financial regulators that cover financial markets and non-bank financial institutions.

4. Safeguards Assessment. BNP has implemented all recommendations from the Safeguards Assessment completed in September 2020.

5. Data Adequacy. The authorities are pressing ahead with the implementation of the National Statistical Plan 2021-25, which is aligned with Fund advice provided in the ROSC. The recently completed rebasing of GDP helps better reflect the current economic structure and growth engines in the national accounts. The completion of the GDP rebasing exercise and population census eased staff and logistical constraints and allowed addressing some recent delays in the publication of macroeconomic data, also in support of the authorities' objective to subscribe to the SDDS. With the support of STA, external sector statistics improved somewhat in reducing errors and omissions.

6. Structural Reforms. The food and fuel subsidies that were introduced in 2022 have been phased out, as recommended by the Fund. The increase in the minimum wage of 4.5 to 7 percent in

2024, to an average minimum salary of US$636.8, will continue to support the most vulnerable to cope with inflation. To improve resilience to natural disasters and droughts, the Ministry of Environment in 2023 presented a plan to improve the management of hydric resources in Panama, which inter alia aims at identifying national priorities, accelerating the implementation of mitigation measures, and supporting their internal and external financing processes.

Annex V. Prospects and Risk Assessment Matrix[1]

Risks	Likelihood	Time Horizon	Expected Impact		Policy Response
External Risks					
Trade policy and investment shocks	High	ST, MT	High	Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	• Pursue adequate liquidity and fiscal buffers to safeguard macroeconomic and financial stability. • Use such buffers to safeguard macroeconomic and financial stability if needed, albeit accompanied by a credible Medium-Term Fiscal Framework (MTFF) and credible plan to return to the deficit targets. • Continue efforts to diversify key export markets. • Ensure that social transfers and subsidies are well targeted to the poor and needy, in a manner consistent with debt sustainability and the SFRL. • Enhance the safety net and crisis preparedness for the financial sector.
Sovereign debt distress	High	ST, MT	High	Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	• Pursue prudent fiscal policies to preserve debt sustainability and continue strengthening fiscal policy credibility. • Deepen domestic financial markets. • Maintain transparency, open communications, and active outreach toward international market participants. • Improve crisis preparedness, including by reforming the crisis management and resolution framework.

[1] The Risk Assessment Matrix (RAM) shows events that could materially affect the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability of below 10 percent, "medium" a probability of between 10 and 30 percent, and "high" a probability of between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. ST and MT stand for the "short-term" and "medium-term", indicating that the risk could materialize within 1 year and 3 years, respectively.

Risks	Likelihood	Time Horizon	Expected Impact		Policy Response
Tighter financial conditions and systemic instability	Medium	ST, MT	High	Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	• Ensure that banks maintain adequate capital and liquidity buffers. • Continue to improve systemic risk monitoring and the macroprudential policy framework. • Improve crisis preparedness, including by reforming the crisis management and resolution framework.
Regional Conflicts	Medium	ST	High	Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	• Pursue adequate liquidity and fiscal buffers to safeguard macroeconomic and financial stability. • Ensure that social welfare and transfer programs are well targeted and reach the poor and those who are most in need, in a manner consistent with debt sustainability and the SFRL. • Any use of fiscal space should be accompanied by a credible MTFF and a credible plan to return to the deficit targets.
Commodity Price Volatility	Medium	ST	High	Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	• Allow the current account to adjust through lower non-oil imports. • Ensure that social transfers and subsidies to soften the impact of commodity price shocks are well targeted to the poor and needy in a manner consistent with debt sustainability and the SFRL.
Global growth acceleration	Low	ST, MT	Medium	Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	• Use positive growth surprises to build fiscal buffers and, when feasible, accelerate the reform agenda.
Deepening Geo-Economic Fragmentation	High	ST, MT	High	Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	• Continue efforts to diversify key export markets. • Advance structural reforms to improve productivity and strengthen competitiveness. including through sustained efforts to improve education and governance.

Risks	Likelihood	Time Horizon	Expected Impact		Policy Response
Cyberthreats	High	ST, MT	Medium	Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	• Improve legal and institutional frameworks for cybersecurity, devise a centralized plan and common rules to combat cyberattacks more effectively. • Enhance risk monitoring and supervision of banking institutions to ensure that systems and processes are in place to mitigate cyber-security risks.
Climate Change	Medium	ST, MT	Medium	Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	• Continue efforts to build resilience and limit disruptions caused by natural disasters, including the impact of droughts on the Panama Canal's operations, focusing on three areas: structural, financial, and post-disaster resilience. • Prepare a Disaster Resilience Strategy (DRS) based on a multi-year macro-fiscal framework, with input from stakeholders, to provide development partners with a comprehensive guide to the authorities' needs and plans, and to facilitate the coordination of their support. • Ensure that social transfers and subsidies to deal with the impact of climate change are well targeted to the poor and needy, in a manner consistent with debt sustainability and the SFRL.
Social discontent	Medium	ST, MT	Medium	Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	• Ensure that social welfare and transfer programs are well targeted and reach the poor and those who are most in need. • Develop clear communication and engagement strategies with affected communities, taking into full consideration their direct and indirect distributional effects in policy decisions. • Address governance and corruption vulnerabilities.

Domestic Risks					
Sharp Correction in Residential and Commercial Property Markets	Medium	ST, MT	High	A sharp correction in property prices could trigger adverse macro-financial spillovers in the economy, which could increase banks' NPLs.	• Strengthen monitoring of systemic risk. • Further develop the macroprudential policy framework and strengthen financial sector crisis preparedness.
Risks	**Likelihood**	**Time Horizon**	**Expected Impact**		**Policy Response**
Setbacks in Fiscal Consolidation Necessary to Adhere to the new SFRL Limits	High	ST, MT	High	Should fiscal imbalances continue, the credibility of fiscal policy could deteriorate, damaging Panama's reputation, reducing market confidence, and leading to higher borrowing costs, impacting debt sustainability.	• Adhere to the deficit targets set in the medium-term plan, as confirmed in the new SFRL. Support this with explicit projections and measures for revenues and expenditures. • Reform tax and customs administration. • Strengthen the fiscal framework.
Social Discontent (Panama-specific)	High	ST, MT	High	Real income loss and inequality combine with discontent over Government policies and perceived corruption to trigger renewed social unrest. This gives rise to financing pressures and detrimental populist policies, which in turn exacerbate imbalances, slow growth, and trigger market repricing.	• Ensure that social welfare and transfer programs are well targeted and reach the poor and those who are most in need. • Develop clear communication and engagement strategies with affected communities, taking into full consideration their direct and indirect distributional effects in policy decisions. • Address governance and corruption vulnerabilities.
Loss Of Investment Grade Status	High	ST, MT	High	A loss of investment grade would further increase financing costs and refinancing risks and exacerbate debt dynamics. It may also reduce FDI and portfolio investment flows and trigger selloffs leading to declines in bond and equity prices.	• Adhere to the deficit targets set in the medium-term plan, as confirmed in the new SFRL. Support this with explicit projections and measures for revenues and expenditures. • Reform tax and customs administration. • Address governance and corruption vulnerabilities.
Droughts	High	MT	Medium	Severe droughts in Panama could result in delays and Canal restrictions with spillovers to the global shipping industry, lower hydro-energy generation and lower agricultural production.	• Continue efforts to build resilience against, and limit the potential disruptions caused by, droughts. • Proceed with the necessary investments to maintain the Canal's operations during future droughts.

Annex VI. External Sector Assessment

Overall Assessment. *The external position of Panama in 2024 is assessed to be broadly in line with the level implied by fundamentals and desirable policies, based on the 2024 outcomes. The headline current account balance swung to a surplus of 1.9 percent of GDP in 2024 (from a revised deficit of 3.1 percent of GDP in 2023), on the back of the re-exports of goods stored in the CFZ and EPZs. The current account deficit excluding the CFZ and EPZs amounted to 0.4 percent of GDP, down from a surplus of 1.2 percent of GDP in 2023, amidst the end of copper exports following the Cobre Panamá shutdown. Over the last decade, the underlying current account deficit improved significantly (from a deficit of 13 percent of GDP in 2011) with declining imports as the construction boom gradually eased. The results of the models used in this assessment could be affected by data issues, including large errors and omissions in the BoP data, but in staff's view these data issues do not affect the overall assessment as the data provide a consistent underlying picture.*

Potential Policy Responses. *Panama's external stability depends on continued financial stability and a favorable global economic environment, particularly global interest rates and world trade. Policy efforts should continue to focus on Panama's resilience by safeguarding fiscal sustainability, reducing vulnerabilities, and building buffers.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The Net International Investment Position (NIIP) stood at -89.4 percent of GDP at end-2024, up from -100.8 percent of GDP in 2021. Gross assets reached 130.5 percent of GDP in 2024, of which the majority is accounted for by banks in the form of foreign deposits and loans (53.1 percent of GDP) and debt securities (16.1 percent of GDP). Gross liabilities reached 219.9 percent of GDP at end-2024 (down from 236.2 percent of GDP in 2021), of which external debt is about 164.7 percent of GDP and non-debt FDI liabilities are about 50.3 percent of GDP. Banks account for the largest share of external debt (69.6 percent of GDP), followed by the government (46.4 percent of GDP), and FDI in the form of intracompany lending (31.9 percent of GDP). Banks' external debt is mostly in the form of deposits.

Assessment. The large share of banking sector liabilities reflects Panama's position as a financial hub and the dominance of its large private financial sector. The bulk of banks' debt is in the form of deposits and is the counterpart of banks' large gross external assets position.

2024 (% GDP)	*NIIP:*	*Gross Assets:*	*Debt Assets:*	*Gross Liabilities:*	*Debt Liabilities:*
	-89.4	***121.1***	***108.6***	***219.9***	***164.7***

Current Account

Background. The current account deficit excluding the CFZ and EPZs is projected to widen from 0.4 percent in 2024 to 3 percent of GDP in 2025 in the absence of copper exports (except the existing stock of copper concentrate worth about $300 million). The overall current account deficit is projected to slightly deteriorate in the medium term to around 2½ percent of GDP, as re-exports from the CFZ and EPZs return to normal.

Assessment. The EBA-lite CA model estimates incorporate an adjustment for the recent unusual variation in the trade balance of the CFZ and EPZs, as the trade of these zones has been very volatile and these trade flows are not connected to the domestic economy. The model estimates a current account norm of -1.1 percent of GDP. This leads to a current account gap of 0.4 percent of GDP, including a policy gap of -0.4 percent of GDP, given that Panama's fiscal balance deviation from its desirable level was larger than the rest of the world's deviation. Staff assesses Panama's external position to be broadly consistent with the level implied by fundamentals and desirable policies.

Panama: EBA-lite Model Results, 2024

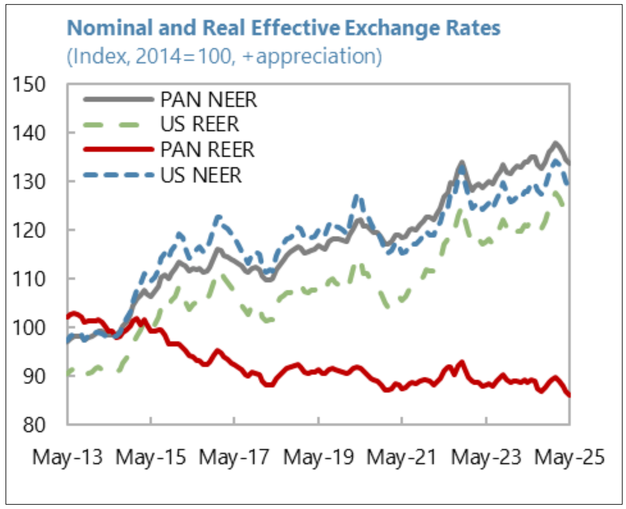
	CA model 1/ (in percent of GDP)
CA-Actual	**1.9**
Cyclical contributions (from model) (-)	0.4
Additional temporary/statistical factors (-) 2/	1.9
Natural disasters and conflicts (-)	0.3
Adjusted CA	**-0.7**
CA Norm (from model) 3/	**-1.1**
Adjustments to the norm (+)	0.0
Adjusted CA Norm	**-1.1**
CA Gap	**0.4**
o/w Relative policy gap	-0.4
Elasticity	-0.3
REER Gap (in percent)	**-1.3**

1/ Based on the EBA-lite 3.0 methodology
2/ Adjustment for the unusual volatility in the trade balance of the CFZ and EPZs.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate (REER) remained broadly stable in 2024, depreciating by 0.3 percent on average relative to 2023, to 1.0 percent below the 2020–23 average. The Nominal Effective Exchange Rate (NEER) appreciated by 2.9 percent on average relative to 2023. Low inflation in Panama relative to peers led to a REER depreciation.

Assessment. The EBA-lite CA model implies a REER undervaluation of 1.3 percent. Given the fact that the REER has not changed much since 2017, staff assesses the 2024 REER gap to be in the range of 0 to 6 percent.



Capital and Financial Accounts: Flows and Policy Measures

Background. Net FDI inflows increased from 1.7 percent of GDP in 2023 to 2.8 percent in 2024, as outward FDI increased, and reinvestment of earnings declined. At the same time, portfolio investment inflows increased from 2023 as issuance by the government increased.

Assessment. Over the medium term, the current account deficit is expected to remain adequately financed by FDI. Panama's location as a maritime and air transportation hub as well as its position as a regional financial center paired with macroeconomic stability is expected to continue to attract substantial investment, albeit in lower volumes relative to GDP than during the 2010s. Although the sustainability of the current account deficit continues to depend to some extent on the profitability of multinational companies and their continued reinvestment, any decline in FDI receipts would likely be offset by a reduction of outflows in the primary income account, limiting the overall impact on Panama's ability to finance imports.

FX Intervention and Reserves Level

Background. Panama is a fully dollarized economy and does not have a central bank. Given that the fiscal and banking sector liquidity needs drive the need for foreign currency reserves, the assessment of the reserve position needs to be based on individual traditional metrics, namely the adequacy of liquidity buffers to cover the external obligations of the government and banking sectors. The standard ARA metric is inappropriate for Panama because of lack of control by the authorities over banks' foreign exchange liquidity. For statistical purposes, international reserves have been historically measured as the net foreign assets of the National Bank of Panama (the third largest commercial bank in Panama, which is government-owned) and the Ministry of Economy and Finance. BNP's net foreign assets decreased from 6.7 percent of GDP in 2021 to 5.6 percent of GDP in 2024, reflecting the payment of external obligations.

Assessment. Panama's reserve level is adequate. Reserves spiked during the pandemic and have since normalized. The central government deposits at commercial banks corresponded to 1.9 months of central government expenditures at end-2024, well above the best practice of 1 month of expenditure. Panama also has a Sovereign Wealth Fund that holds about 2 percent of GDP in foreign assets abroad, which could be considered adequate to cover the financial needs of a relatively lean government with small deficits during normal times. Liquid assets in the banking sector covered 54.7 percent of short-term deposits at end-December 2024 (nearly double the minimum statutory requirement of 30 percent), reflecting the high liquidity buffers in the banking sector.

Table 1. Panama: External Debt Sustainability Framework, 2017–30
(In percent of GDP, unless otherwise indicated)

	Actual										Projection						
	2017	2018	2019	2020	2021	2022	2023	2024			2025	2026	2027	2028	2029	2030	Debt-stabilizing non-interest current account 6/
Baseline: External debt	144.3	147.6	148.8	198.1	177.0	167.1	163.5	161.5			**158.2**	**159.8**	**161.0**	**161.0**	**160.6**	**159.7**	**-2.6**
Change in external debt	-9.9	3.3	1.2	49.2	-21.1	-9.9	-3.5	-2.0			-3.3	1.6	1.2	0.0	-0.4	-0.9	
Identified external debt-creating flows (4+8+9)	-11.7	-9.8	-5.7	30.3	-32.1	-19.9	-9.9	-9.3			-8.9	-7.0	-6.2	-6.1	-6.3	-6.2	
Current account deficit, excluding interest payments	1.7	4.9	2.1	-3.2	-0.7	-2.5	-1.0	-6.2			1.0	1.9	2.6	2.7	2.6	2.6	
Deficit in balance of goods and services	-0.3	1.3	-1.5	-3.9	-4.7	-4.0	-2.4	-7.5			-5.9	-5.7	-5.1	-5.2	-5.3	-5.3	
Exports	42.1	42.0	40.7	34.7	40.8	46.8	45.5	43.3			42.2	41.0	40.1	39.8	39.4	39.0	
Imports	41.8	43.3	39.2	30.8	36.2	42.8	43.1	35.8			36.3	35.3	34.9	34.5	34.1	33.7	
Net non-debt creating capital inflows (negative)	-6.9	-6.8	-5.7	-2.5	-3.0	-3.0	-1.7	-2.8			-2.9	-2.8	-2.7	-2.6	-2.7	-2.6	
Automatic debt dynamics 1/	-6.6	-7.9	-2.1	35.9	-28.4	-14.4	-7.3	-0.3			-7.0	-6.2	-6.1	-6.3	-6.2	-6.3	
Contribution from nominal interest rate	4.1	2.9	3.0	2.9	1.9	2.4	4.1	4.3			-0.1	-0.2	-0.1	-0.2	-0.1	-0.2	
Contribution from real GDP growth	-8.0	-4.9	-4.7	31.4	-27.4	-16.8	-11.4	-4.6			-6.9	-6.0	-6.0	-6.1	-6.1	-6.1	
Contribution from price and exchange rate changes 2/	-2.7	-5.9	-0.5	1.6	-2.9	...	...	...			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	1.8	13.1	6.9	19.0	11.0	9.9	6.4	7.3			5.6	8.6	7.4	6.1	5.8	5.3	
External debt-to-exports ratio (in percent)	342.7	351.2	365.7	570.7	433.4	356.8	359.7	372.8			374.9	389.6	402.0	405.1	407.7	409.1	
Gross external financing need (in billions of US dollars) 4/	50.9	47.2	46.0	41.5	43.5	46.2	54.2	53.1			55.6	59.4	63.4	67.6	71.2	74.6	
in percent of GDP	78.9	70.1	65.9	72.7	64.6	60.6	65.0	61.6	10-Year	10-Year	61.3	61.9	62.2	62.5	65.8	65.0	
Scenario with key variables at their historical averages 5/											**162.8**	**167.8**	**171.5**	**173.8**	**175.8**	**177.1**	**-0.7**
									Historical	Standard						For debt	
Key Macroeconomic Assumptions Underlying Baseline									Average	Deviation						stabilization	
Real GDP growth (in percent)	5.6	3.7	3.3	-17.2	16.3	10.8	7.4	2.9	4.3	8.6	4.5	4.0	4.0	4.0	4.0	4.0	
GDP deflator in US dollars (change in percent)	1.8	4.2	0.3	-1.1	1.5	2.6	1.2	0.6	1.6	1.4	0.5	2.0	2.0	2.0	2.0	2.0	
Nominal external interest rate (in percent)	2.8	2.2	2.1	1.6	1.1	1.5	2.6	2.7	2.2	0.6	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
Growth of exports (US dollar terms, in percent)	7.7	4.2	0.4	-30.3	39.0	29.8	6.1	-1.4	4.4	19.2	2.2	3.1	3.6	5.3	5.1	5.1	
Growth of imports (US dollar terms, in percent)	5.8	8.2	-6.2	-35.7	38.6	33.9	10.1	-14.0	2.3	22.3	6.3	3.2	5.1	4.8	4.8	4.9	
Current account balance, excluding interest payments	-1.7	-4.9	-2.1	3.2	0.7	2.5	1.0	6.2	-0.4	3.7	-1.0	-1.9	-2.6	-2.7	-2.6	-2.6	
Net non-debt creating capital inflows	6.9	6.8	5.7	2.5	3.0	3.0	1.7	2.8	4.7	2.3	2.9	2.8	2.7	2.6	2.7	2.6	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

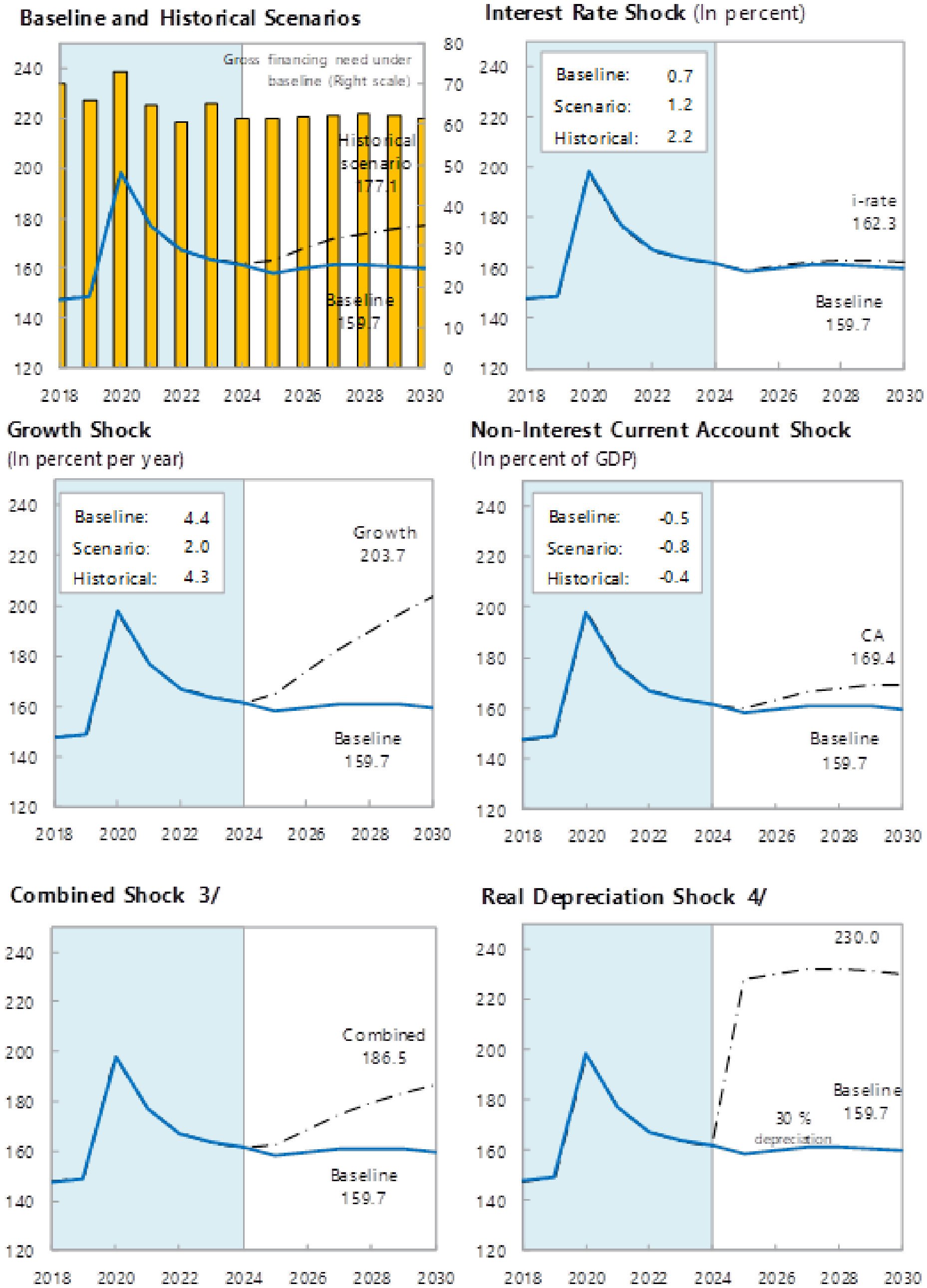
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels
of the last projection year.

Figure 1. External Debt Sustainability: Bound Tests 1/ 2/

(In percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent.

Annex VII. Debt Sustainability Analysis

Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Panama faces a moderate risk of sovereign stress, marked by moderate vulnerability in the near and long term.
Near Term [1/]	Moderate	Moderate	Near-term risks are considered moderate, as the logit model does not account for recent developments. The recent suspension of arbitration proceedings by First Quantum signals a potential near-term reopening of the mine. This could provide a boost to tax revenues and help ease future spending pressures. However, the recent sovereign downgrades by rating agencies also reflect concerns over rising debt levels which are likely to result in higher borrowing costs. The government's plans to reduce the fiscal deficit in 2025 and in the medium-term, if implemented, will help mitigate the risk of stress.
Medium Term	Moderate	Moderate	Medium-term risks are considered moderate, despite recent sovereign downgrades and potential downside risks. The fiscal consolidation, which reduced the fiscal deficit from 10 percent of GDP in 2020 to 3.9 percent in 2023, was partially reversed in 2024, with the deficit rising to 7.4 percent of GDP. Missing the 2025 fiscal target would increase the risk of losing investment-grade status, and present significant challenges to public finances in the medium term. However, the implementation of a credible medium-term fiscal strategy, aligned with the SFRL fiscal rule targets, along with sustained economic growth, is expected to help manage the debt-to-GDP ratio. If negotiations over the future of the mine do not succeed, Panama could face significant risks stemming from the related international arbitration cases.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	...	...	
Long Term	...	Moderate	Long-term risks are considered moderate. Financing and debt dynamics remain vulnerable to uncertainties regarding future growth sources, climate change-related impacts on the Panama Canal, fiscal consolidation, and the ability to implement reforms.
Sustainability Assessment [2/]	Not required for surveillance countries	Sustainable with high probability	Debt is projected to stabilize with GFNs at manageable levels, contingent on a credible multi-year plan to meet the amended fiscal rule targets. Based on this, debt is assessed as sustainable with high probability.
Debt Stabilization in the Baseline			Yes

Figure 1. Risk of Sovereign Stress (Concluded)

DSA Summary Assessment

Commentary: Panama faces a moderate risk of sovereign stress, with public debt currently considered sustainable with high probability, though vulnerable to significant downside risks. Key uncertainties include the future sources of economic growth, potential impacts from the copper mine arbitration, and the risk of losing investment-grade status, all of which pose notable challenges in the medium term. Authorities' multi-year plan, aligned with fiscal rules, would set public debt on a downward trajectory, supported by an improving primary balance and strong real GDP growth. Liquidity risks in the medium term are moderate, partly due to the use of medium- and long-term maturity instruments such as global bonds and multilateral debt. Panama's external financing needs and non-resident debt share will remain elevated, reflecting its role as a regional US-dollar-based financial center. The potential loss of investment-grade status, coupled with disruptions in global capital markets, could create pressure on the rollover of external sovereign debt. Over the medium to long term, Panama needs to rebuild fiscal buffers through enhanced revenue mobilization.

Source: Fund staff. Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

Coverage		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	Yes	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

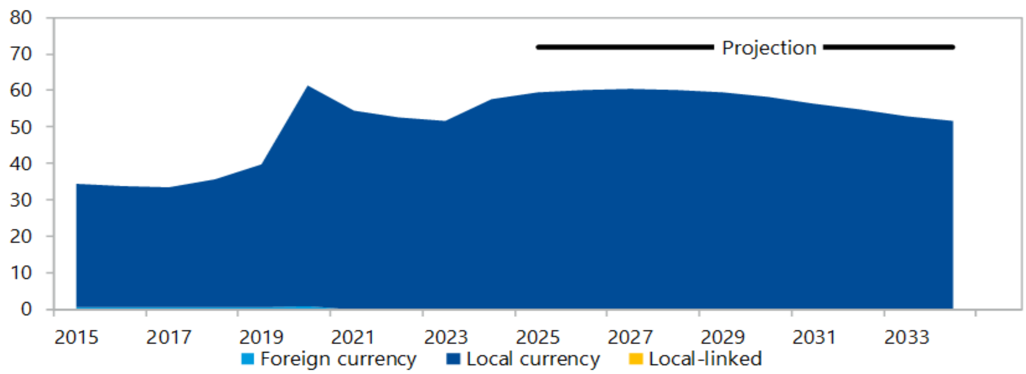
Reporting on Intra-Government Debt Holdings

Coverage		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

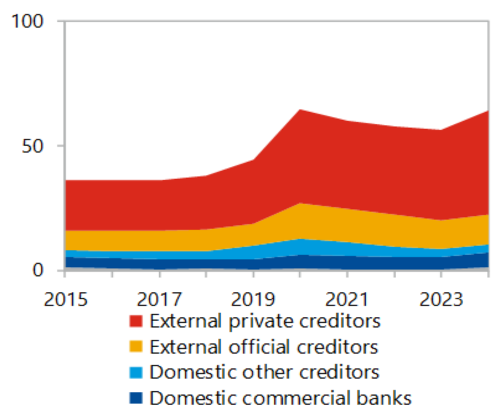
Commentary: In Panama, the non-financial public sector is defined by Law 31 of 2011 and primarily includes the central government, the social security agency (CSS), public enterprises, and consolidated government agencies. It excludes public enterprises such as ENA, ETESA, and AITSA, non-consolidated agencies, and the Panama Canal Authority.

Figure 3. Public Debt Structure Indicators



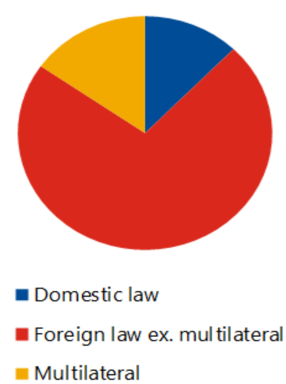
Note: The perimeter shown is nonfinancial public sector.

Public Debt by Holder (Percent of GDP)



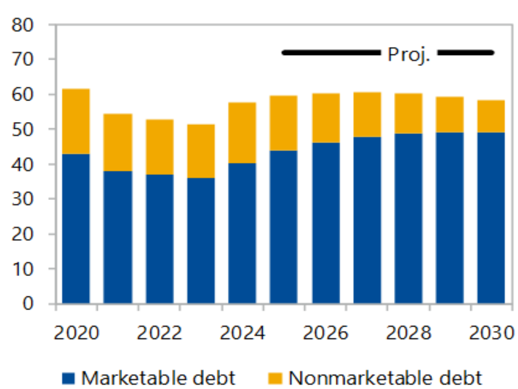
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



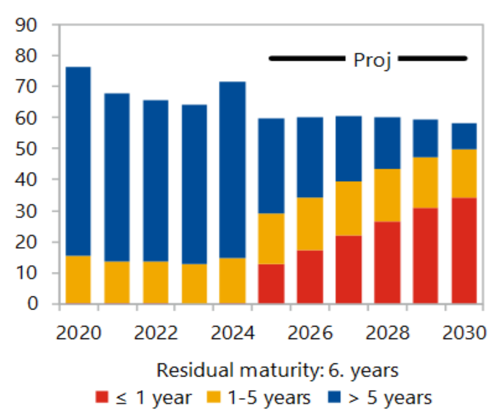
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



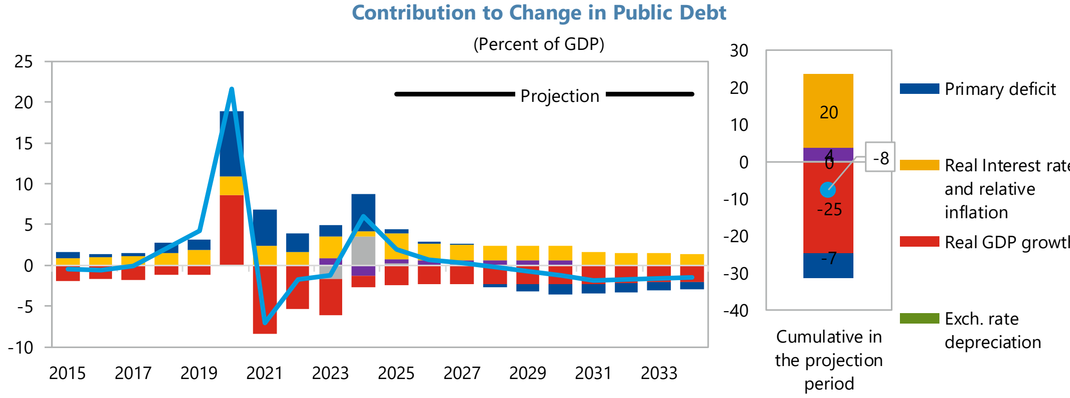
Note: The perimeter shown is general government.

Commentary: Panama is a dollarized economy and has issued mostly U.S. dollar-denominated debt after 2021. The larger share of public debt is held externally, and it is expected to have mostly long-term maturity in the forecast horizon.

Figure 4. Baseline Scenario
(In percent of GDP, unless otherwise indicated)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	57.6	59.5	60.2	60.5	60.2	59.4	58.2	56.4	54.7	53.0	51.5
Change in public debt	6.1	2.0	0.7	0.3	-0.3	-0.8	-1.2	-1.8	-1.7	-1.6	-1.5
Contribution of identified flows	2.5	1.8	0.7	0.2	-0.3	-0.8	-1.2	-1.8	-1.7	-1.6	-1.5
Primary deficit	4.5	0.5	0.3	0.0	-0.3	-0.8	-1.3	-1.2	-1.1	-1.0	-0.9
Noninterest revenues	15.8	17.7	18.0	18.4	18.9	19.5	19.7	20.0	20.0	20.0	20.0
Noninterest expenditures	20.3	18.2	18.4	18.4	18.6	18.6	18.4	18.8	18.9	19.0	19.1
Automatic debt dynamics	-0.8	0.8	-0.3	-0.4	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Real interest rate and relative inflatio	0.7	3.3	2.0	1.9	1.8	1.7	1.7	1.6	1.5	1.5	1.4
Real interest rate	0.7	3.3	2.0	1.9	1.8	1.7	1.7	1.6	1.5	1.5	1.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.1	-2.0
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-1.3	0.5	0.6	0.6	0.6	0.7	0.7	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-1.2	0.5	0.6	0.6	0.6	0.7	0.7	0.0	0.0	0.0	0.0
Contribution of residual	3.5	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	11.4	9.2	9.1	5.8	6.4	5.9	5.2	4.8	4.6	4.3	4.3
of which: debt service	6.9	8.7	8.8	5.8	6.8	6.8	6.4	6.0	5.7	5.3	5.2
Local currency	6.9	8.7	8.8	5.8	6.8	6.8	6.4	6.0	5.7	5.3	5.2
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.9	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Inflation (GDP deflator; percent)	4.4	0.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	3.5	5.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Effective interest rate (percent)	5.9	6.4	5.6	5.4	5.1	5.1	5.0	4.9	4.9	4.9	4.8

Contribution to Change in Public Debt



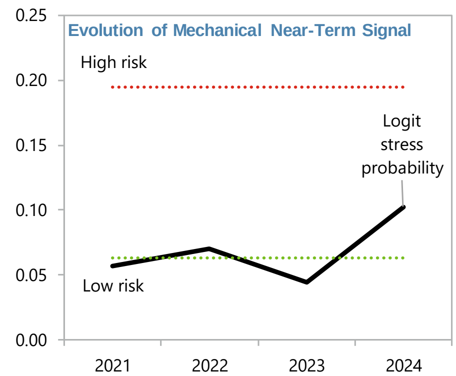
Commentary: Growth dynamics have been the primary driver of the debt trajectory since the pandemic. Going forward, fiscal discipline will play an increasingly important role in reducing the debt burden. Under the baseline scenario, the government's commitment to a credible multi-year plan aims to meet the SFRL/NFPS deficit target of 4 percent of GDP starting in 2025, gradually reducing to 1.5 percent by 2030 (a 0.5 percentage point reduction in GDP annually). This plan is expected to enable a steady reduction in the debt-to-GDP ratio to 40 percent by 2040. However, potentially higher financing costs and tighter global financial conditions may slow this adjustment process.

Figure 5. Near-Term Risk Analysis

Year of data	2021	2022	2023	2024
To predict stress in [t+1, t+2]	*2022-23*	*2023-24*	*2024-25*	*2025-26*
Logit stress probability (LSP)	0.057	0.070	0.044	0.103
Change in LSP	-0.162	0.013	-0.026	0.059
due to:				
Institutional quality	0.009	0.000	0.000	0.000
Stress history	-0.001	0.000	0.000	0.000
Cyclical position	0.101	-0.056	0.006	-0.007
Debt burden & buffers	-0.149	0.024	0.007	0.034
Global conditions	-0.117	0.045	-0.038	0.031

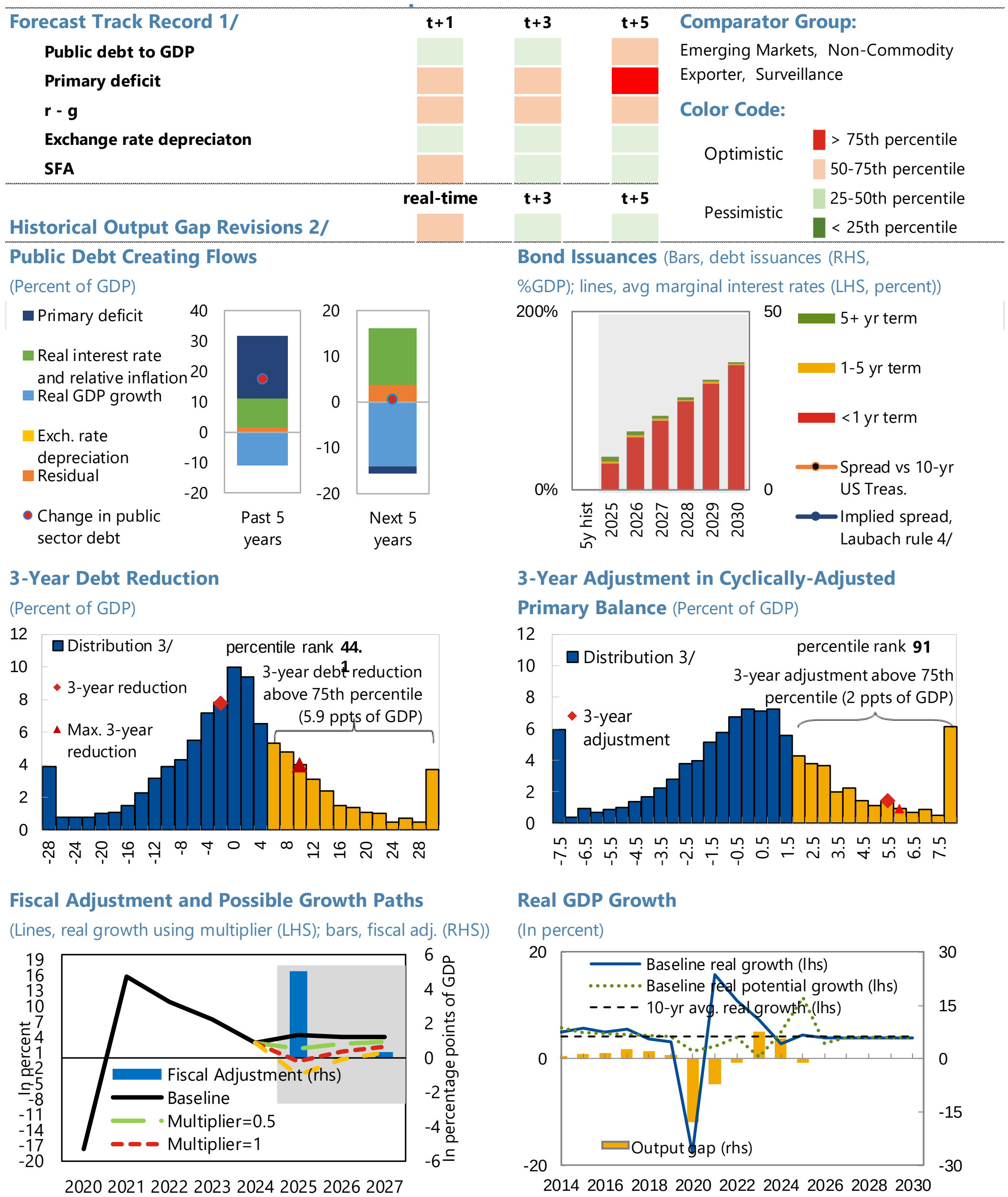
Prob. of missed crisis, 2025-2026 (if stress not predicted): 16.4 pct.

Prob. of false alarm, 2025-2026 (if stress predicted): 22.5 pct.



Commentary: Panama's risk of near-term stress is moderate. Improvements since 2020 largely reflect the normalization of global conditions and fiscal consolidation efforts supported by strong economic growth.

Figure 6. Realism of Baseline Assumptions



Commentary: The projected debt path is within the norm. Forecast errors do not show systematic biases.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

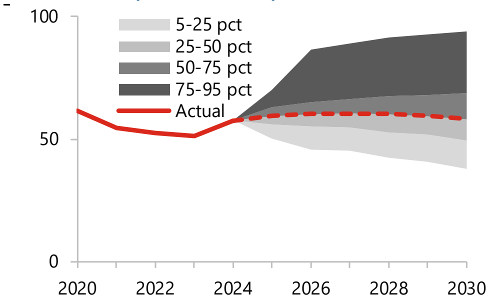
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 7. Medium-Term Risk Analysis

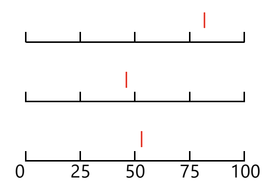
	Value	Contrib 1/	Percentile in peer group 2/

Final Fanchart (Percent of GDP)

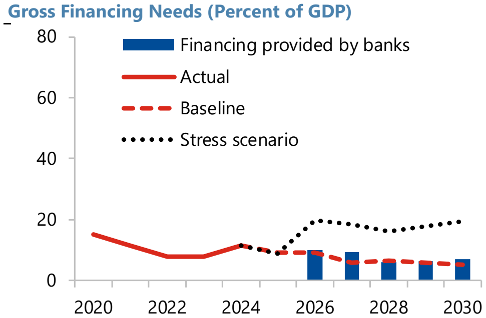


Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	56.0	0.8
Probability of debt non-stabilizaiton *(percent)*	14.5	0.1
Terminal debt-to-GDP x institutions index	31.9	0.7
Debt fanchart index (DFI)		1.6
Risk signal: 3/		**Moderate**

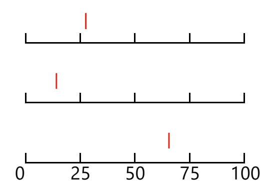


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

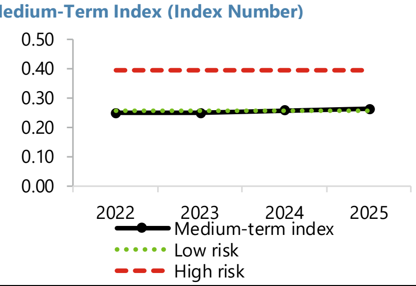
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	6.9	2.4
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.9	1.3
Chg. In banks' claims in stress *(pct banks' assets)*	14.2	4.7
GFN financeability index (GFI)		8.4
Risk signal: 4/		**Moderate**



Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.6	0.4	0.5	0.2
GFN finaceability index	8.4	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 39.8 pct.

Commentary: The overall mechanical signal for the medium-term risk analysis is moderate. The Debt Fanchart Module is pointing to a moderate level of risk, with debt-to-GDP ratios rising above the 2020 peak in the 75-95 percentile range. The GFN Financeability Module suggests a low level of risk, although financing needs may increase significantly in a stress scenario.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex VIII. The Panama Financial Sector Assessment Program

The IMF-World Bank FSAP aims to assist countries in identifying and addressing systemic risks in their financial sectors, thereby enhancing their resilience to shocks and contagion.[1] The first FSAP for Panama took place in 2011–12. An updated assessment was conducted jointly with the World Bank during 2022–23 and was concluded by the IMF's Executive Board on December 1, 2023. Its main findings are described in Annex V of the 2024 Article IV Staff Report. This annex updates the implementation status of its recommendations.

	Recommendations	Agency[1]	I/ST/MT[2]	Implementation Status
Systemic Risk Analysis				
1.	Develop various remaining components of a solvency bank stress test model suite to cover all relevant drivers. Once further developed, use the integrated stress test model suite to help inform the timing and calibration of macroprudential policy tools.	SBP	ST	Completed: The SBP updated the probabilities of default (PD) of the credit risk module and the market stress module is now in place. Sensitivity analyses were also performed on the liquidity module and granular credit risk based on macroprudential indicators.
2.	Develop a liquidity stress simulation model for banks.	SBP	ST	Completed: The SBP already has a liquidity stress module based on the FSAP template.
Financial Sector Oversight				
Macroprudential Oversight				
3.	Establish additional borrower-based macroprudential policy tools, such as caps on mortgage LTVs or on DTI or DSTI ratios to limit the buildup of vulnerabilities in the household segment.	SBP	ST	Completed: The SBP continues to compile data on income from household loans (personal, automobile, and mortgage loans). This information is received every six months for analysis since 2023. Currently, multiple individual valuation calculations are performed for each borrower in terms of the ability to pay their obligations, considering monthly income vs. debt and servicing, as well as LTV calculations by credit range. These indicators are shared

[1] SBP = Superintendency of Banks of Panama; CCF = Financial Coordination Council; MEF = Ministry of Economy and Finance; SSNF = Superintendency of Non-Financial Entities; RPP = Public Registry Office; DGI = Tax Authority; MiAMBIENTE = Ministry of the Environment; SMV = Superintendency of Securities Markets; SSRV = Superintendency of Insurance and Reinsurance.
[2] I —Immediate (within 1 year), ST—Short term (within 1-2 years), MT—Medium term (within 3-5 years).

[1] For background on the FSAP, see https://www.imf.org/en/Publications/fssa/.

Recommendations		Agency	I/ST/MT	Implementation Status
				with the supervision and risk directorates such that, if required, they would be asked to provide greater coverage of provisions (Agreement 4-2013).
4.	Ensure regular and timely discussions on macroprudential policy issues, including through quarterly meetings of the SBP and CCF macroprudential policy committees.	CCF, SBP	I	The SBP and the CCF have held regular meetings of the SBP's Macroprudential Policy Committee (CPMP) and the CCF, although there was an interruption due to staff changes at some of the agencies. These meetings will be held 3 times a year.
5.	Develop the CCF member agencies' capabilities for macroprudential analysis and policies. Allocate a role for the MEF in the CCF.	CCF	ST	Other members of the CPMP have been trained by SBP staff. In 2022, the first Financial Stability Day was held, which served as a training for CPMP members. In addition, regular CPMP meetings are used for capacity building of CCF members. Training for CCF members, most of whom are new following the change of government, will continue. With regard to assigning a role to the MEF within the CCF, an agreement was reached for the MEF to participate as a guest at CCF meetings.
Banking Supervision				
6.	Amend the Banking Law to make explicit that the SBP's primary objective should be to promote safety and soundness of the banking system.	MEF	ST	For the time being, no amendments to the Banking Law are planned in the short or medium term, due to contextual considerations and priorities at the national level. The SBP will update the institutional website to clearly and proactively disclose the SBP's main objective.
7.	Undertake supervision of liquidity risk on a consolidated basis and implement regulations for interest rate risk in the banking book (IRRBB).	SBP	ST	The SBP is evaluating the best course of action for liquidity risk supervision on a consolidated basis.

Recommendations		Agency	I/ST/MT	Implementation Status
				With respect to the IRRBB, an external consultant has been contracted to review the current draft Interest Rate Risk Regulation. The draft is expected to be presented to the Board for consideration during 2025. It has been included in the 2025 Regulatory Sheet.
8.	Introduce a capital buffer framework for internationally active banks aligned with the Basel III capital standards. Introduce the capital conservation buffer and capital surcharges for systemically important banks.	SBP	MT	The regulation to introduce a CCB framework was issued on October 3, 2023 (Decision No. 5-2023). The CCB will be fully phased in by 2026. The introduction of a capital surcharge for systemically important banks is planned for 2025. The technical teams are currently discussing the draft agreement.
Payment Systems				
9.	Facilitate the urgent adoption of a law on payment systems and services.	MEF, SBP	I	Discussions are ongoing between the MEF, SBP and BNP. The authorities aim to adopt the payments systems law by end-2025.
10.	Develop an oversight policy framework covering payment systems and payment services reflecting the new legal mandate.	SBP	ST	Implementation of this recommendation is pending the adoption of the law on payment systems (recommendation 9). Despite the fact that the SBP does not yet have prudential powers, from the point of view of AML/CFT prevention, it supervises some business models linked to means of payment (e.g., electronic money issuers).
Crisis Management and Financial Safety Nets				
11.	Establish prudential requirements for all banks to develop recovery plans, with tailored requirements for international license banks.	SBP	I	The SBP has presented to the new authorities the various courses of action to address this recommendation. In addition to continuing to analyze the models applied in other jurisdictions, various consulting options are being considered for the revision

Recommendations		Agency	I/ST/MT	Implementation Status
				of the text of the draft law; Development of a banking resolution framework adapted to the Panamanian context and aligned with international best practices; and the review and adaptation of the recommendations issued during the last FSAP. It should be noted that a plan has already been established to ensure the subsequent creation of a specialized unit within the SBP, composed of three people with specific profiles and defined functions.
12.	Establish an explicit industry-funded deposit insurance scheme once sufficient progress has been made on resolution reforms; the DIS should extend protection to certain class(es) of depositor(s) at all general license banks.	MEF, SBP	ST	This is a medium-term project that will require the consensus of the banks in the market, as they would have to create a fund to cover depositors' deposits for an amount to be determined.
13.	Explore and implement mechanisms to establish a LOLR facility provided by a public authority and not a commercial bank.	MEF, SBP	ST	This is being considered.
Financial Integrity				
14.	Ensure corporations can no longer issue bearer shares and require custodial arrangements to include collection and verification of beneficial ownership information.	MEF, SSNF	I	This is being evaluated. The SSNF can verify the UBO information for all legal persons, regardless of whether they have issued bearer shares or not. In the UBO registry the information related to the UBO must be included regardless of whether the legal person has issued bearer shares.
15.	Reach agreement at the policy level and develop procedures to dissolve and unwind suspended companies that have passed the deadline for reactivation.	MEF, RPP, SSNF, DGI	ST	This is being evaluated by a working group.
16.	Collect information and assess the risk posed by foreign legal persons and arrangements incorporated and/or managed abroad by Panamanian law firms	SSNF	MT	The SSNF works on three pillars for the identification of such risks: - Sectoral risk: through the evaluation of risks within the sector under review

	Recommendations	Agency	I/ST/MT	Implementation Status
	and adopt appropriate and proportionate controls.			- Reporting entity risk: questions and risk criteria in the self-evaluation questionnaire: i.e., if offices are located outside Panama and in which country; if the reporting entity belongs to an economic group and from which country, etc. - Risk from the legal person incorporated in Panama assessed through the UBO registry.
17.	Assess the money laundering (ML)/terrorist financing (TF)/proliferation financing (PF) risks emerging from virtual asset service providers (VASPs) and identify measures to prevent or mitigate these risks; regulate and subject VASPs to supervision or monitoring for AML/CFT purposes in line with the FATF Standards.	SBP	ST	A working group has previously been agreed upon to begin in April of this year to develop a regional assessment of the AML/CFT risk associated with Virtual Assets and Virtual Asset Service Providers with the support of CABEI and GAFILAT. The SBP has been invited to participate in this important working group. In this working group, the preliminary results obtained will be presented and the findings will be discussed with the responsible officials to reach consistent general conclusions. The guidelines adopted will serve as reference inputs for the adoption of regulatory guidelines, where appropriate.
Financial Sector Development				
Climate Risk Analysis, Regulation and Supervision, and Greening the Financial Sector				
18.	Improve coordination among superintendencies, government entities, and private sector stakeholders on climate-related and environmental risks; engage with external partners and join international platforms.	MiAMBIENTE, MEF, SBP, SMV, SSRP	I	They participate in meetings where all the actors are present under the advice of the UN Environmental Program (UNEP). Banking and securities companies have been chosen to participate in a pilot project for the implementation of the taxonomy.
19.	Finalize the green taxonomy, making sure it is environmentally sound, well communicated, and covers the entire financial sector.	MiAMBIENTE, MEF, SMV, SBP, SSRP	I	On March 27, 2024, Panama launched its sustainable finance taxonomy. (link – Spanish only) In addition, the Central American Council of Superintendents of Banks, Insurance and other Financial Institutions (CCSBSO) launched the regional green taxonomy on December 4, 2024.

Recommendations		Agency	I/ST/MT	Implementation Status
Digital Financial Services and Financial Inclusion				
20.	Issue secondary regulations ensuring principles of regulatory neutrality and proportionality, and protection of customer funds, covering issuance of e-money, and rules for licensing of nonbank payment service providers.	SBP	ST	Implementation of this recommendation requires explicit legal powers for the SBP through legislation as proposed in Recommendation 9.
21.	Establish a comprehensive standalone financial consumer protection regulatory framework with a specific focus on the new risks to consumers due to digital financial services and fintech.	SBP	MT	As for banking entities, the regulation is explicit in indicating the parameters that banks must follow to mitigate the risks of the various electronic channels (Decision No. 6-2011). However, other users of (nonbank) financial services do not currently fall under the jurisdiction of the SBP, so it is important to approve the legal framework regulating the payment system to ensure that these payment providers must comply with clear rules set out in a legal framework.

Annex IX. Possible Tax Revenue Reform Measures for Panama[1]

1. **A Selected Issues Paper (SIP) for the 2023 Article IV consultation looked at possible revenue gains from tax reforms.** Authored by tax experts from the IMF's Fiscal Affairs Department who provided technical assistance on this issue to Panama, it evaluates key elements of the tax system, including VAT (ITBMS), personal income tax (PIT), corporate income tax (CIT), and trade taxes, and provides a clearer understanding of how reforms could enhance revenue collection. Below is a short summary of the report, with additional details available in the full report.

Summary and Possible Revenue Gains

2. **Panama's tax revenue to GDP ratio has declined in the past decade and is now at a low level compared with other countries.** As of 2023, tax revenue stood at 7.7 percent of GDP, significantly below regional averages—less than half that of Central America and Latin America, and about one-third of the OECD averages. One explanation for the low tax revenue is the low tax rates. However, Panama collects less than what could be expected given the tax rates. The extensive reliance on tax incentives and exemptions, combined with low compliance rates, smuggling, and a substantial informal economy, has eroded the tax base and undermined the efficiency of the tax system.

3. **To collect more revenues, a comprehensive reform of the tax system is needed.** Such a reform should aim at broadening the tax base, improving compliance, and strengthening administrative capacity to formalize most economic activities. Specific measures could include expanding the range of taxable activities and reducing exemptions to increase overall tax revenue, adjusting existing tax rates to strike a balance between competitiveness and sufficient revenue generation, and enhancing tax administration and enforcement to reduce evasion and improve compliance.

4. **Implementing these reforms has the potential to yield a revenue increase of about 2.5 percent of GDP (see Table in the main text), with the most substantial contributions arising from the removal of exemptions and adjustments to the VAT (ITBMS) rate.** Specifically, the elimination of all tax exemptions could allow for an increase in VAT and CIT revenue of approximately 2 percent of GDP, while raising the VAT rate from 7 percent to 10 percent is projected to generate about 1.5 percent of GDP. Removal of the lump sum compensation in the personal income tax system is expected to contribute 0.03 percent of GDP, and more revenue gains are possible if this is complemented with measures aimed at broadening the tax base and reducing informality. Improvements in the design and collection of excise taxes could add another 0.07 percent of GDP.

[1] Prepared by Olusegun Akanbi.

Annex X. Data Issues

Table 1. Panama: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	C	B	C		
Granularity 3/	C		B	B	B		
			B		B		
Consistency			B	C		B	
Frequency and Timeliness	B	B	C	B	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Overall, data provided to the Fund have some shortcomings but are broadly adequate for surveillance. Improving the availability of disaggregated fiscal data, including SOE data, in line with international best practices would support the analysis and policy discussion including of revenue and expenditure trends and projections. Further reducing still sizeable errors and omissions in external sector statistics (5 percent of GDP in 2024) and improving the granularity of national accounts data (savings per sector) would support surveillance of growth trends and external sector issues. Further efforts are required to improve the recording of balance of payments transactions for companies operating within special economic zones. Information on non-bank financial institutions, non financial corporations and households is limited.

Changes since the last Article IV consultation. Compared to the assessment in the 2024 Article IV consultation, the overall assessment was upgraded based on two key factors: 1) the timeliness of key macroeconomic indicators has improved since the last consultation as the GDP rebasing and census projects were completed; and 2) Errors and omissions in the Balance of Payments data has been somewhat addressed from the large spike first reported for 2023. Compared to the previous consultation, some monthly fiscal data is now more readily available as, starting from July 2024, the Ministry of Finance is publishing detailed monthly fiscal operations reports. The authorities have started to publish central government data in line with the granularity suggested by the latest Government Finance Statistics Manual.

Corrective actions and capacity development priorities. Continued CD on GFS (to expand coverage), national accounts and prices would support surveillance. TA from the ILO would assist in producing more frequent and timely labor market data. There is no comprehensive presentation on how the nonfinancial public sector is consolidated. The upcoming new CPI based on the 2017/2018 household survey will improve the series' usefulness for surveillance. TA, including from the Fund, would help further clarify the source of errors and omissions in external sectors statistics and improve the timeliness of IMAE in support of analysis and policy discussions.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.

Other data gaps. More timely labor market data would improve conjunctural and trend analysis of social conditions as well as labor productivity and growth.

Table 2. Panama: Data Standards Initiatives

Panama participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since October 2018. The authorities are working to subscribe to the SDDS in the near term.

Table 3. Panama: Table of Common Indicators Required for Surveillance

As of July 01, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Panama[8]	Expected Timeliness[6,7]	Panama[8]
Exchange Rates					D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec-24	Feb-25	M	M	M	M	1M	1M
Reserve/Base Money	May-25	Jun-25	M	M	M	M	2M	50D
Broad Money	May-25	Jun-25	M	M	M	M	1Q	50D
Central Bank Balance Sheet	May-25	Jun-25	M	M	M	M	2M	50D
Consolidated Balance Sheet of the Banking System	May-25	Jun-25	M	M	M	M	1Q	50D
Interest Rates[2]	Jun-25	Jun-25	D	D	M	M	...	50D
Consumer Price Index	Jun-25	Jun-25	M	M	M	M	2M	15D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	May-25	Jun-25	M	M	A	Q	3Q	45D
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	May-25	Jun-25	M	M	Q	Q	1Q	45D
Stocks of Central Government and Central Government-Guaranteed Debt[5]	May-25	Jun-25	M	M	Q	M	2Q	1M
External Current Account Balance	2025Q1	Jun-25	Q	Q	Q	Q	1Q	75D
Exports and Imports of Goods and Services	2025Q1	Jun-25	Q	Q	M	M	12W	45D
GDP/GNP	2025Q1	Jun-25	Q	Q	Q	Q	1Q	75D
Gross External Debt	2025Q1	Jun-25	Q	Q	Q	Q	2Q	75D
International Investment Position	2024Q4	Mar-25	Q	Q	A	Q	3Q	75D

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

PANAMA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 14, 2025

Prepared By: Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2025)

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	322.40	85.56
Reserve Tranche Position	54.41	14.44

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	558.16	100.00
Holdings	383.28	68.67

Outstanding Purchases and Loans: None

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):

	2025	2026	2027	2028	2029
Principal					
Charges/Interest	2.70	5.23	5.23	5.23	5.22
Total	2.70	5.23	5.23	5.23	5.22

Implementation of HIPC Initiative: Not applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable
Implementation of Catastrophe Containment and Relief (CCR): 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. The BNP has implemented all of the recommendations from the assessment. In particular, the legal framework for operationalizing the FES has been approved, the criteria for selection and appointment of external auditors have been strengthened, and investment practices were enhanced through revised policy and governance arrangements.

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 2024 Article IV consultation was concluded on June 3, 2024. Panama is on the standard 12-month consultation cycle.

Financial Sector Assessment Program (FSAP)

The 2023 FSAP was concluded on December 1, 2023. It found that the main risks of macrofinanical stress in Panama stem from potential external shocks, including a resurgence in global macroeconomic uncertainty from regional conflicts, further rising interest rates in the United States, and higher crude oil prices. The banking sector, which dominates Panama's financial system, appears to be well capitalized, liquid, and generally resilient against these risks according to a stress test that simulated a hypothetical, severe downturn scenario. Some pockets of weakness were revealed. Banks appear solid in terms of liquidity coverage, and the system relies strongly on foreign correspondent bank support.

Technical Assistance

Panama is a large recipient of technical assistance (TA) directly through the Fund or through 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, STA TA was focused on the real and financial sectors with the aim of improving national accounts and monetary and financial statistics. MCM also delivered TA on banking sector stress test, Basel III implementation, and macroprudential framework and policies.

Resident Representative

Gerardo Peraza (based in Guatemala) is the Regional Resident Representative for Central America, Panama and the Dominican Republic.

RELATIONS WITH OTHER FINANCIAL INSTITUTIONS

(As of June 25, 2025)

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

Inter-American Development Bank: https://www.iadb.org/en/who-we-are/country-offices/panama

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

Central American Bank for Economic Integration (CABEI): 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 and IIP

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

Statement by André Roncaglia, Executive Director for Panama, Eloy Fisher Hogan and Frank Fuentes, Advisors to Executive Director
July 28, 2025

On behalf of the Panamanian authorities, we thank Mr. Bakker and his team for the constructive conversations during the Article IV consultation. Our authorities broadly agree with staff's assessment of Panama's economic performance and outlook under challenging international financial and trade conditions.

Recent macroeconomic developments and outlook

Economic growth decelerated but exceeded expectations in 2024. Despite the challenges of being a small open economy in a highly uncertain global landscape, Panama's macroeconomic performance has exceeded market expectations and staff projections due to a robust policy management of downside risks. Year-on-year growth in 2024 exceeded initial expectations by nearly half a percentage point, notwithstanding the closure of mining operations in the country, increased unemployment, and recurrent droughts that affected transit through the Panama Canal.

The growth momentum is expected to resume in 2025. Staff revised the growth forecast upward to 4.5 percent from 3 percent, reflecting stronger-than-expected performance, primarily driven by private construction, transportation, and commerce. The most recent growth estimates detail a 5.2 percent year-on-year increase in the first quarter, as high-frequency indicators confirm favorable performance in most sectors, particularly transportation, communications, commerce, financial intermediation, manufacturing, and tourism. Growth has also been supported by increased consumption patterns in both the public and private sectors. Despite the impact of supply chain disruptions and commodity price volatility affecting the broader regional economy, inflation remains low.

Fiscal policy and debt dynamics

The authorities are committed to fiscal consolidation. In light of Panama's pressing fiscal challenges, the authorities have engaged in productive consultations with staff to undertake a socially responsible fiscal consolidation process. In June, President Mulino approved an expense reduction plan equivalent to 2.1 percent of GDP. This strategy is designed to limit the increase in borrowing and interest burdens and eliminate arrears to make the budgeting process more efficient and transparent, without impacting vulnerable populations. As staff indicated during the Article IV consultation, authorities are currently working to reduce spending by optimizing payroll structures and streamlining government processes, among other important measures. Authorities are also recalibrating budget allocations in line with fine-tuned expenditure forecasts, adjusting budget execution ceilings, and appropriating funds based on new revenue projections.

An ambitious fiscal reform package is well underway. Despite the constraints of a rigid operational budget, where nearly 92 percent of budget items are subject to protected legislation, the authorities are committed to reducing the non-financial public sector (NFPS) fiscal deficit to 4.0 percent of GDP by 2025, in line with a revised Social and Fiscal Responsibility Law (SFRL). The plan applies to both operating (US$ 426.5 million) and investment (US$ 1,470 million) expenditures. Additionally, tax collection has increased, surpassing recent projections as the government implements IMF recommendations. Authorities are pleased that staff welcomed these bold measures as timely and appropriate during the recent consultation.

The new fiscal plan strengthens debt sustainability. Public debt remains sustainable with a debt-to-GDP ratio projected to resume its downward trajectory in 2026, underpinned by an improving primary balance. Despite facing a complex fiscal situation and challenging international trade conditions, the authorities are implementing a multi-year growth-friendly adjustment plan that imposes spending controls and prudent debt issuance locally to anchor debt dynamics and boost domestic market confidence. Authorities also undertook a comprehensive social security reform to ensure its sustainability over the longer term. The downward trend in borrowing costs and lengthy maturity levels add another layer of support to the authorities' financial strategy. Panama has robust access to international capital markets, bolstered by its dollarized economy and stable political environment. For this reason, Moody's recently reaffirmed Panama's investment grade sovereign risk rating, acknowledging its economic resilience and its commitment to macroeconomic stability.

External sector

The country's external position has strengthened. Panama's current account has shown notable improvement, with service exports rising by 10.2 percent year-on-year during the first quarter of 2025. The country's exports reached nearly US$5 billion, the highest levels recorded in over a decade. While the overall export sector experienced a decline due to a nationwide halt in mining activities, this was partially offset by a significant increase in agricultural exports. Additionally, Panama experienced notable growth in tourism, with an increase of 6.2 percent and 6.7 percent in visitor arrivals and receipts, respectively. This underscores the country's strategic efforts to enhance its standing as a premier tourist destination, even in the face of global economic uncertainty.

Panama remains an attractive and trust-worthy foreign direct investment (FDI) destination in the region. Sustained capital inflows continue to support Panama's convergence with advanced economies, thereby supporting economic growth and elevating labor productivity. In 2024, FDI experienced a significant surge of 28.9 percent year-on-year, driven by reinvested utilities and new capital inflows. The Panamanian authorities are committed to continue strengthening the institutional framework to boost transparency and accountability in their efforts to attract more FDI amid high uncertainty in the global economy.

<u>Financial system, Integrity, and Transparency</u>

Panama's financial system remains sound and resilient. The banking sector continues to demonstrate robust capitalization, with system liquidity significantly exceeding minimum regulatory requirements. Capital buffers are twice the minimum regulatory target. Furthermore, the credit portfolio totals US$ 65 billion, with strong performance in personal and commercial accounts. Stress tests demonstrate that even smaller banks maintain adequate capitalization under extreme scenarios, indicating their long-term sustainability. The debt-service-to-income ratio averages 44 percent, and ratios approaching the legal limit of 50 percent are subject to more stringent monitoring. To address potential future threats to financial stability, the Financial Stability Council has resumed regular meetings following recent leadership changes, ensuring continued oversight of systemic risks.

The country has made significant progress in aligning its practices with international AML/CFT standards across all sectors. Authorities have engaged in consultations at the highest level with their counterparts in Spain, France, Italy, Greece, and Germany, who have expressed support for their efforts. Additionally, the authorities successfully secured Panama's accession to MERCOSUR as an associate member, a significant achievement as Panama is the first country outside of South America to attain such status.

The European Commission recently delisted Panama as a high-risk jurisdiction. This decision was ratified by the European Parliament. On the back of this development, Panama is proactively preparing for the subsequent round of GAFILAT evaluations. Given that Panama's beneficial owner registry now encompasses over 90 percent of the country's legal entities, it effectively includes most active legal providers within its purview. During a recent visit, the head of the European Commission praised the implementation of Executive Decree 512 (2024), which prohibits countries sanctioned by the European Union from using Panama's ship registry. The head of the European Commission also offered Panama congratulations on its leading role in the Global Gateway program, which aims to promote smart, clean, and secure connections in the digital, energy, and transportation sectors.

Structural reforms

Bolstering Panama Canal's operations remains a top priority. The Panamanian government is implementing strategic policies to strengthen climate resilience, particularly regarding water management for Panama Canal operations. The Panama Canal Authority (PCA) reported a 2,500-transit reduction due to the El Niño-induced drought, which highlights the Canal's exposure to climate variability. However, the efficient administration of the waterway offset those losses, with 2,188 neo-Panamax ships passing through the new Canal operation — a 21 percent increase from last year. Moreover, the Panama Canal is expected to contribute nearly US$ 2.8 billion (equivalent to 3.1 percent of GDP) in dividends for the 2025 fiscal year, which will accrue to the US$ 28 billion delivered since 2000. In that regard, the US$ 1.6 billion Rio Indio project aims to increase daily transit capacity by 10–15 vessels. It also seeks to address water security concerns and social demands through thoughtful engagement with local populations. Furthermore, the Panama Canal has incorporated electric and hybrid tugboats into its daily operations to enhance efficiency and reduce emissions. The first of these, the *Isla Barro Colorado*, was constructed in Spain and delivered to the PCA in the first quarter of this year.

Strengthening climate governance remains a key priority. The authorities are creating the Panamanian Carbon Exchange as part of Panama's Sustainable Financing Framework, which was developed jointly with the Inter-American Development Bank (IDB). The exchange will market carbon credits and price environmental costs in production, allowing the development of green initiatives across the economy. The deployment of an additional 50 percent of park rangers over nine months and the enhanced surveillance of 35 percent of the territory designated as protected areas demonstrate the authorities' commitment to environmental sustainability. Additionally, the incoming administration has pledged to comply fully with the *Escazú* Agreement regarding transparency and the realization of comprehensive environmental audits of any future mining policy decisions.

Panama is currently exploring the prospect of OECD membership. The Panamanian authorities are contemplating the initiation of an accession process and are seeking a technical dialogue with the organization to align its policies with OECD standards and best practices. The authorities have received support from the IDB at the recent Fourth

International Conference on Financing for Development in their efforts to apply for membership of the OECD. The Fund's continued support for this worthwhile endeavor would strengthen Panama's international standing and provide a much-needed boost to institutional reforms.

Concluding remarks

The Panamanian authorities reaffirm their unwavering commitment to maintaining sound macroeconomic policies that promote sustainable growth, financial stability, and social development. The government is committed to fiscal discipline, financial sector soundness and transparency, and will seek ambitious structural reforms. The authorities understand that it is essential to preserve investor confidence and safeguard the country's macroeconomic resilience. Panama is strategically positioned to advance toward inclusive growth and macroeconomic sustainability for the benefit of all its citizens. This will be achieved by fostering a transparent policy environment and strengthening institutional frameworks.