INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/105

PANAMA

May 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT 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 2017 Article IV consultation with Panama, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse of time basis, following discussions that ended on March 17, 2017, 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 April 17, 2017.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 17/149
FOR IMMEDIATE RELEASE
May 4, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2017 Article IV Consultation with Panama

The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Panama on May 1, 2017 and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

Panama's economy has been the fastest growing in Latin America over the last two decades and is expected to remain among the most dynamic in the region, with stable and low inflation, sustainable public debt, a declining current account deficit, and a stable financial sector. Economic growth moderated to 4.9 percent in 2016 amid external headwinds, and inflation and unemployment remain subdued, although have risen slightly. Fiscal consolidation continues in line with the fiscal rule targets and public debt is sustainable. The current account deficit continued to narrow to 5.6 percent of GDP, primarily due to lower investment-related imports and weak fuel prices. Credit growth remains strong, though has begun to slow recently.

The outlook remains favorable, albeit set against the backdrop of heightened external uncertainty. Growth is projected to pick up slightly to 5.1 percent in 2017 and about 5.5 percent over the medium term, supported by the expanded Canal and the wide range of public and private investment projects. The overall NFPS deficit is projected to gradually decline to about 1 percent of GDP over the medium term, and public debt remains sustainable with net debt projected to remain below the SFRL target of 40 percent of GDP. Diversification of exports into primary commodities with the opening of a new mine will help further narrow the current account deficit to about 3 percent of GDP over the medium term. Key downside risks relate to progress in strengthening tax transparency and AML/CFT and a less favorable external environment, including weaker-than-expected global growth, a shift toward increasing trade restrictions, a faster-than-expected tightening of U.S. monetary policy and continued appreciation of the U.S. dollar.

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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] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment[3]

Economic activity remains among the most vibrant in the region. Medium-term growth prospects are strong, with sectors such as logistics and tourism providing potential to further boost activity. The policy environment should support future growth, especially with measures to address skill gaps, the quality of education, and high income inequality. Panama's external position remains moderately weaker than suggested by fundamentals, but is on track to return to its norm over the medium-term. The current account deficit is expected to continue to benefit from stable financing, predominately from FDI. Risks relate mainly to progress with tax transparency and financial integrity and to heightened uncertainty in the external policy environment, primarily related to developments in global trade and interest rates.

Measures to strengthen tax transparency and ensure effective exchange of tax information must remain at the top of the policy agenda. Building on considerable progress over the last year, policy efforts should focus on addressing remaining deficiencies to preserve Panama's position as a competitive and attractive destination for international financial and business services. In particular, it is essential to demonstrate the availability of ownership information and reliable accounting records for all relevant entities registered in Panama, and put in place an effective mechanism for exchange of tax information. Continued actions to strengthen the tax administration's capacity are critical.

Enhancing financing integrity through effective implementation of Panama's AML/CFT framework must remain a strategic priority to safeguard Panama's role as a regional financial center. The legal framework needs to be fully aligned with international standards, including by making tax crimes a predicate offence to money laundering. The National Commission should continue to play a central role in coordinating Panama's efforts to combat AML/CFT risks. Effective implementation of the strengthened AML/CFT framework will be critical to receiving a positive assessment by GAFILAT.

Efforts to further strengthen the fiscal framework should continue. The medium-term consolidation plan implies a downward trajectory for public debt, which helps build buffers to address possible fiscal risks. Adhering to this strategy will continue to demonstrate the authorities' commitment to fiscal discipline and will strengthen the credibility of the fiscal framework. The authorities' plan to establish a fiscal council could improve transparency, promote accountability of the fiscal framework, and encourage an informed public debate. Assessment and management of public sector fiscal risks and contingent liabilities should be improved. A comprehensive assessment of public sector fiscal risks, such as those related to unfunded pension liabilities, turnkey projects, and contingent liabilities of public companies will help gauge the adequacy of fiscal buffers. With limited fiscal revenues, better management of these risks is essential to help avoid crowding out strategic public investment.
Building on recent progress, the tax administration should continue to be strengthened. Despite recent improvements, Panama's tax revenues remain among the lowest in the region. Measures

[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.

to further enhance tax administration need to be complemented with policy actions to streamline tax incentives and exemptions. Publishing estimates of foregone revenue from each of these incentives can subject them to public scrutiny and build momentum for reform.
The customs administration needs to address weaknesses in institutional capacity and governance. Tangible progress is essential in improving data quality and management, reforming control processes, enhancing human resources, limiting discretionary powers, and moving forward with trade facilitation.

Financial sector oversight, macroprudential policy, and crisis management should be strengthened to build resilience. The steps being taken to fully align prudential regulations with Basel III are welcome and will enhance the resiliency of the financial system. Resiliency will also be strengthened by ongoing efforts to improve oversight through enhanced coordination of microprudential supervision across supervisors and these efforts should be deepened to include the monitoring of systemic risks. To complement these efforts, macroprudential policy tools targeted toward addressing the risks presented by Panama's financial conglomerates and household debt should be developed to provide more policy flexibility in managing macrofinancial risks. Finally, Panama's crisis management framework should be strengthened by establishing a temporary liquidity facility for banks to address systemic shocks, improving the SBP's bank resolution powers, introducing deposit insurance, and developing a framework to coordinate the response of supervisory agencies to risks to financial stability.

Panama: Selected Economic Indicators

	2012	2013	2014	2015	Est. 2016	Proj. 2017
	(Annual percentage change)					
Real economy						
Nominal GDP	16.2	12.3	9.6	6.0	5.9	7.2
Real GDP	9.2	6.6	6.1	5.8	4.9	5.1
Consumer price index (average)	5.7	4.0	2.6	0.1	0.7	2.0
Consumer price index (end-of-year)	4.6	3.7	1.0	0.3	1.5	2.5
Money and credit						
Private sector credit	14.7	13.3	10.2	11.6	8.3	6.6
Broad money	11.4	7.2	8.2	5.5	4.1	7.2
Average deposit rate (1-year)	2.7	2.7	2.7	2.7	2.9	…
Average lending rate (1-year)	7.2	7.2	7.4	7.7	7.2	…
	(Percent of GDP)					
Saving and investment						
Gross domestic investment	44.4	45.8	47.0	46.6	46.3	45.2
Gross national saving	34.0	36.0	33.4	39.3	41.0	40.5
Public sector 1/						
Revenue and grants	25.9	25.4	23.6	23.4	23.4	23.5
Expenditure	28.8	29.3	28.3	27.7	26.4	25.5
Current, including interest	17.9	17.2	17.5	18.4	17.8	18.2
Capital	10.9	12.2	10.8	9.3	8.6	7.3
Overall balance	-3.0	-4.0	-4.7	-4.3	-3.0	-2.0
Overall balance, excluding ACP	-1.4	-2.3	-3.3	-2.3	-2.2	-1.7
External sector						
Current account	-10.5	-9.8	-13.7	-7.3	-5.6	-6.2
Foreign direct investment	8.7	8.1	8.4	7.6	9.2	8.9
Non-Financial Public Sector external debt	27.0	27.3	29.2	30.0	30.7	29.0
Memorandum items:						
GDP (in millions of US$, current price)	39,955	44,856	49,166	52,132	55,188	59,139

Sources: National Authorities and IMF staff estimates.

1/ Non-Financial Public Sector and Panama Canal Authority (ACP).

INTERNATIONAL MONETARY FUND

PANAMA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

April 17, 2017

KEY ISSUES

Background. Economic growth moderated to 4.9 percent in 2016 amid external headwinds, but remains among the strongest in the region. Inflation and unemployment remain subdued, although have edged up. Fiscal consolidation continues in line with the fiscal rule targets and public debt is sustainable. The current account deficit continued to narrow to 5.6 percent of GDP, primarily due to lower investment-related imports and weak fuel prices. Credit growth remains robust, though has begun to decelerate. The Financial Action Task Force (FATF) removed Panama from its gray list in February 2016.

Outlook and Risks. Economic growth is projected to pick up slightly to 5.1 percent in 2017 and about 5.5 percent over the medium term, supported by the expanded Canal and the wide range of investment projects. Key downside risks relate to progress in strengthening tax transparency and AML/CFT, which are needed to obtain positive outcomes in the assessment of the AML/CFT framework and in the Global Forum's fast-track assessment of tax transparency in May-June 2017, and a less favorable external environment, including weaker-than-expected global growth, a shift toward increasing trade restrictions, a faster-than-expected tightening of U.S. monetary policy and continued appreciation of the U.S. dollar. Pressures on correspondent banking relationships (CBRs) could adversely affect Panama's regional financial center. Upside risks are related to stronger-than-anticipated recovery in the United States or Latin America, Panama's main export markets.

Policy advice. Panama's growth model relies on its ability to remain a competitive and attractive destination for international financial, business, and transportation services. Continued progress with tax transparency and financial integrity are essential to preserve this growth model. Commitment to fiscal discipline and efforts to strengthen the fiscal framework and enhance institutional capacities contribute to ensuring sustainability, and need to be complemented by a comprehensive assessment of fiscal risks. As a regional financial center, strong systemic risk oversight and macroprudential and crisis management frameworks are important to safeguard financial stability.

Approved By
R. Rennhack (WHD) and D. Zakharova (SPR)

Discussions took place in Panama City during March 6-17, 2017. The staff team comprised Valerie Cerra (head), Kimberly Beaton, Metodij Hadzi-Vaskov (all WHD), and Jun Kusumoto (MCM). Alfredo Macia (OED) also participated in the meetings. The team met with the Minister of Economy and Finance Dulcidio De La Guardia, other senior public officials, and private sector representatives.

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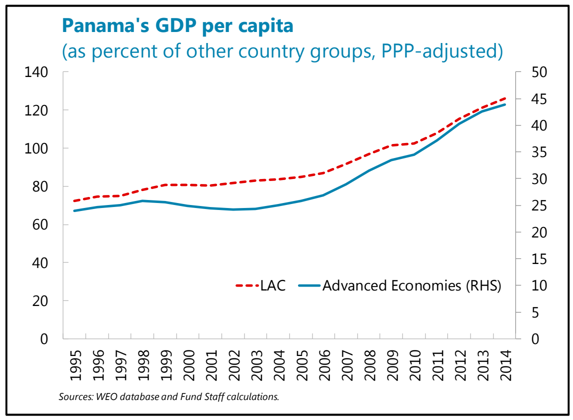
ANNEXES

CONTEXT

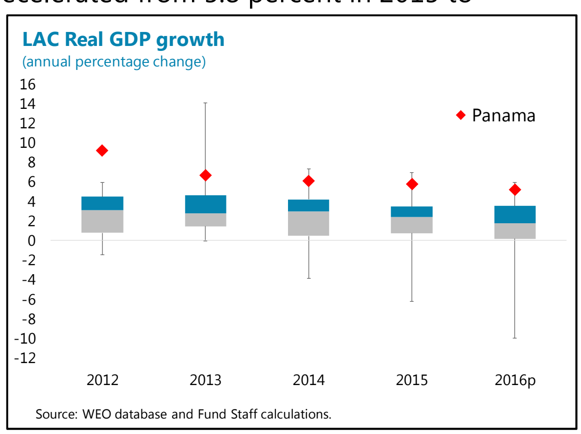
1. **Economic prospects remain favorable and linked to Panama's ability to address key challenges.** Panama's growth model relies on its ability to remain a competitive and attractive destination for international financial, business, and transportation services. To maintain this model, the key challenge will be to further strengthen tax transparency and financial integrity, while continuing to enhance Panama's policy framework anchored in fiscal discipline and financial sector stability. The government is entering the second half of its mandate, without a clear majority in the National Assembly. In this context, the government's reform capacity has been appropriately focused on strengthening tax transparency and AML/CFT.

2. **Panama's exceptional growth performance has contributed to a significant improvement in social-economic conditions (Figure 1).** Panama has had the highest growth in LAC over the last two decades, which resulted in strong convergence of its income per capita with advanced economies. Poverty and inequality have correspondingly declined, but nonetheless remain elevated. Strengthening the quality of education is an important challenge to further gains in inclusive growth.



RECENT DEVELOPMENTS

3. **Growth has moderated against the backdrop of external headwinds, but remains among the most vibrant in the region (Figure 2).** Growth decelerated from 5.8 percent in 2015 to 4.9 percent in 2016. Activity was mainly held back by weaker-than-expected Canal-related activity following the opening of the expanded Canal (Box I). Continued underperformance at the Colon Free Zone (CFZ) also contributed. In contrast, the construction sector, the key driver of growth over the past decade, remained buoyant, as did financial intermediation, commerce, and other services. The unemployment rate increased slightly to 5.5 from 5.1 percent in 2015 as the output gap turned slightly negative.



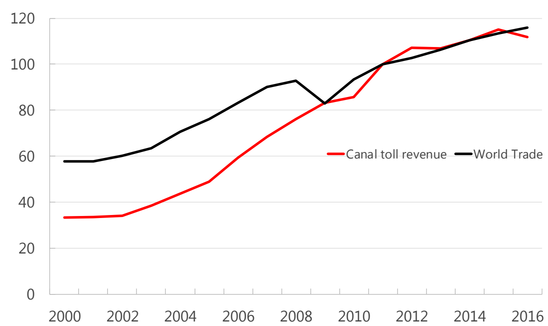
4. **Inflation remains subdued.** Average headline inflation in 2016 was 0.7 percent, due to low fuel prices, weaker economic activity, and the strong dollar. The regular biennial adjustment of the minimum wage led to a slight increase in unit labor costs in 2016, largely offsetting declines in recent years.

Box 1. Panama: Expansion of the Panama Canal: Maintaining Panama's Competitiveness as a Major World Trade Route

The completion of the expanded Panama Canal marks a major milestone in Panama's history as an important route for world trade.[1/] The 50-mile waterway connecting the Atlantic and Pacific oceans underwent a major expansion over 2007-2016, with investment of about $5.3 billion in new locks and other supporting infrastructure. The expansion was designed to accommodate the shipping industry's shift to larger "post-Panamax" vessels that could not transit through the original Canal. The expanded Canal began commercial operations on June 26, 2016.

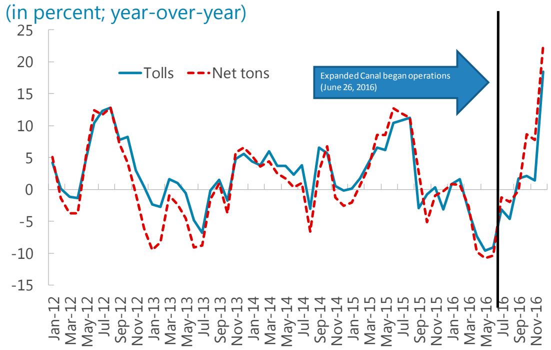
Over time, the expanded Canal is expected to unlock new growth opportunities. The amount of cargo transiting the Canal and its toll revenues depend on world trade, which is expected to grow 4 percent on average over 2017-18, according to the World Economic Outlook (January 2016). Meanwhile, low oil prices have enhanced the relative competitiveness of other shipping routes, such as around Cape Horn. In this environment, the near-term economic gains from the expansion depend on the Canal's ability to regain the market share it had lost as the shipping industry transitioned to larger ships or, alternatively, to divert trade traffic to the Canal. In April 2016, a lower toll structure designed to capture market share was implemented. While the ramp up in canal activity has been slower than initially expected, activity and toll revenues have been rising swiftly since late 2016. The expanded Canal also opens opportunities for emerging activities, such as LPG and LNG vessels, and may have spillovers to related industries such as logistics and ports.

Panama: Panama Canal Toll Revenue and World Trade
(indices; 2011=100)



Sources: IMF World Economic Outlook, Autoridad del Canal de Panamá.

Panama: Panama Canal Traffic and Revenue
(in percent; year-over-year)

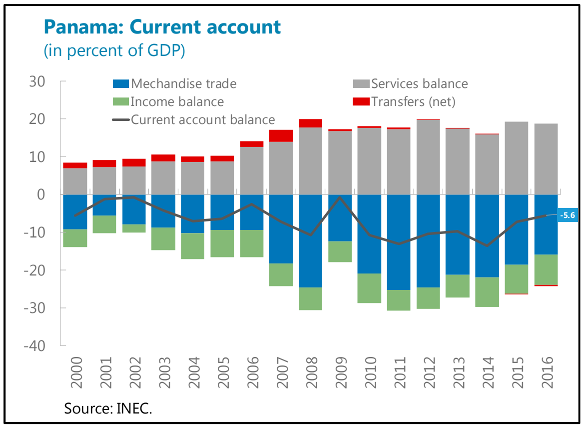


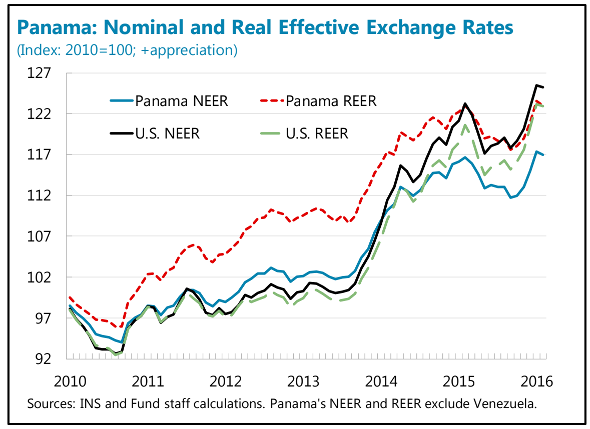
Source: Autoridad del Canal de Panamá

1/ See IMF Country Report No. 16/338 for additional background on the canal expansion and anticipated internal and external spillovers from its operations.

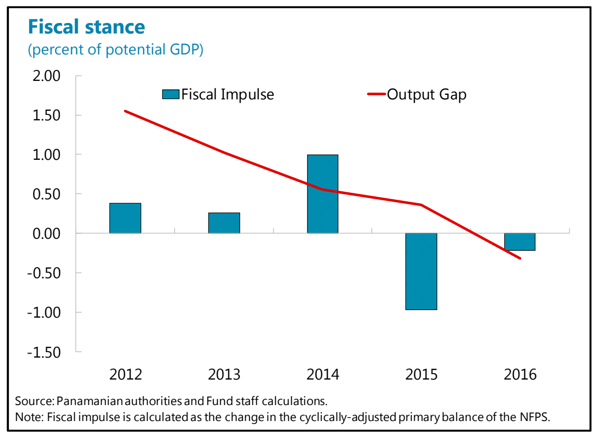
5. **Despite appreciation of the real effective exchange rate (REER), Panama's external position has strengthened**. Given dollarization, the continued strength of the U.S. dollar drove an appreciation of the REER of 0.8 percent in 2016.[1] Nevertheless, survey-based indicators of competitiveness and developments in productivity and unit labor costs suggest that Panama remains internationally competitive (Annex I). In addition, REER appreciation mainly affects exports of goods, while its impact on exports of services is not significant (Selected Issues Paper II). The current account deficit narrowed to 5.6 percent of GDP, from a peak of 13.7 percent in 2014. The improvement is primarily associated with a decline in investment-related imports, as several large-scale construction projects wound down, and energy-related imports due to lower commodity prices. The deficit has mainly been financed by FDI, supporting external stability.

[1] Excluding Venezuela.





6. Fiscal consolidation continued amid weaker economic activity (Figure 3). The overall unadjusted deficit for the non-financial public sector (NFPS) in 2016 is estimated to have narrowed to 2.2 percent of GDP. The adjusted deficit remained below the maximum allowed under the Social Fiscal Responsibility Law (SFRL).[2] Improvements in revenue administration, the introduction of partial VAT withholding and an upgraded tax filing system contributed to the strongest tax revenue performance over the last three years. This helped to narrow the overall deficit despite an increase in expenditure driven by improved execution of public investment and the increase in public wages. Overall, fiscal policy had a slightly contractionary impact amid a widening output gap.



7. Credit growth remains robust, but the credit cycle appears to be at a turning point. Panama has experienced a prolonged expansion of credit, which in recent years has outpaced the growth of deposits, the primary source of funding for Panamanian banks. However, more recently, the cost of funding has risen. Banks have responded by raising lending rates and tightening credit supply to realign its expansion with the deposit base. Credit demand has slowed simultaneously, linked to the moderation in economic activity, and consequently credit growth has started to decelerate.

8. Macro-financial stability risks from the prolonged credit expansion remain a concern. The recent deceleration in credit growth has thus far been primarily related to banks cutting exposures to the CFZ (Figure 4). In contrast, household borrowing continues to fuel credit growth. The assessment of macro-financial risks from the rapid increase of household credit is hindered by a

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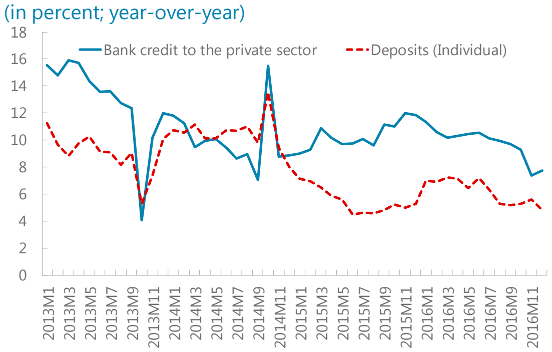
[2] The estimated deficit is lower than the preliminary deficit of 2.4 percent of GDP as payment reservations put aside at end-2016 are projected to be partially executed.

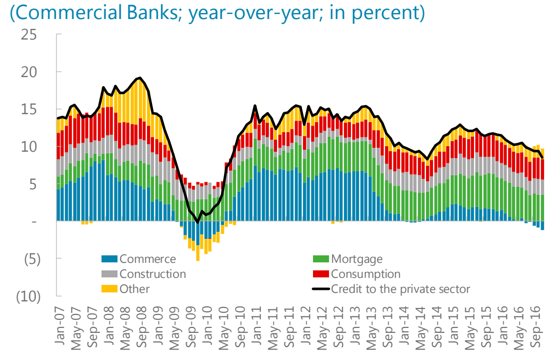
lack of available data on property prices, household debt service and loan-to-value ratios.[3] However, anecdotal evidence suggests that property prices have risen in tandem with credit. Nonetheless, these risks could be offset by banks' conservative lending practices, which have traditionally required low loan-to-value ratios, and the existing practice of automatic payroll deductions for household credit which limit debt service to 50 percent of households' income.

Panama: Credit Provision and Funding
(in percent; year-over-year)



Sources: SBP.

Panama: Credit to the Private Sector
(Commercial Banks; year-over-year; in percent)



Sources: National authorities; IMF staff calculations.

9. **The leak of Mossack Fonseca documents and U.S.-imposed sanctions on the Waked organization appear to have had a limited economic and financial impact (Box II)**. While these events highlight the need to further strengthen tax transparency and improve AML/CFT, FDI has remained robust; there have been no signs of generalized capital flight; banking sector assets continue to grow; and Panama's EMBI spread remains stable.

Box 2. Panama: Mossack Fonseca Documents and Waked Money Laundering Organization: Impact on Panama [1/]

The release of the Mossack Fonseca documents and U.S. sanctions on Panamanian entities underscore the importance of continuing ongoing efforts to strengthen AML/CFT. In April 2016, documents were released from the Panamanian law firm Mossack Fonseca detailing its role in establishing offshore companies for global clients. Unrelatedly, in May 2016, the U.S. imposed sanctions on the Waked Money Laundering Organization.[1/] These events raised concerns of broad economic and financial fallout, which have largely not materialized.

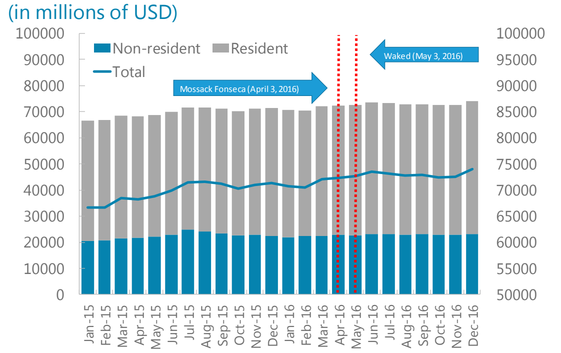
The direct impacts on Panama's economy and financial system appear to have been limited thus far. Legal services related to incorporations are estimated at only about 0.7 percent of GDP and are directly associated with a very small cluster of business activities. While a Panamanian bank designated by U.S. authorities as part of the Waked organization was intervened in 2016, the banking system has remained sound. Banking system assets continue to grow as deposits have remained stable. Banks have also maintained access to correspondent banking relationships (CBRs). FDI grew 15.9 percent year-over-year in 2016, reaching 10.7 percent of GDP. Panama remained an attractive destination for the establishment of (regional) headquarters of multinational companies: 2016 saw the highest number newly-established headquarters since the introduction of special incentives in 2007. Finally, Panama's EMBI spread has remained stable, suggesting continued investor confidence.

[3] Anecdotal evidence suggests that commercial property prices have also risen, but commercial mortgages account for only 3.5 percent of GDP.

Box 2. Panama: Mossack Fonseca Documents and Waked Money Laundering Organization: Impact on Panama (Concluded)

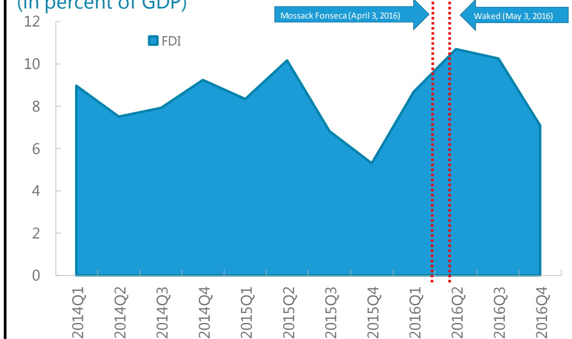
The authorities have continued to make progress in strengthening tax transparency and AML/CFT to overcome the reputational impact of these events and to prevent future incidents. These efforts have been complemented by ongoing criminal investigations into the Panamanian firms and individuals involved in these events.

Deposits: National Banking System
(in millions of USD)



Source: SBP.

Foreign Direct Investment
(in percent of GDP)

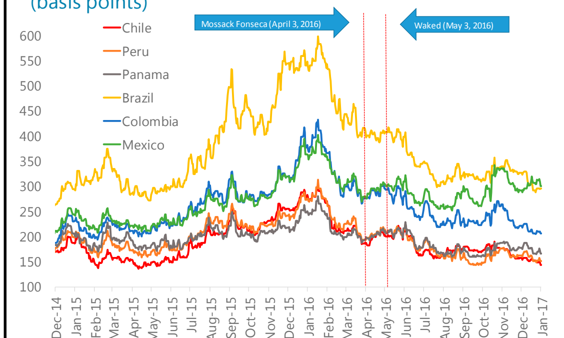


Sources: INEC.

Multinational Companies Registered in Panama
(number of new companies registered)

Sources: Panama authorities.

Panama: EMBI Global Spreads
(basis points)



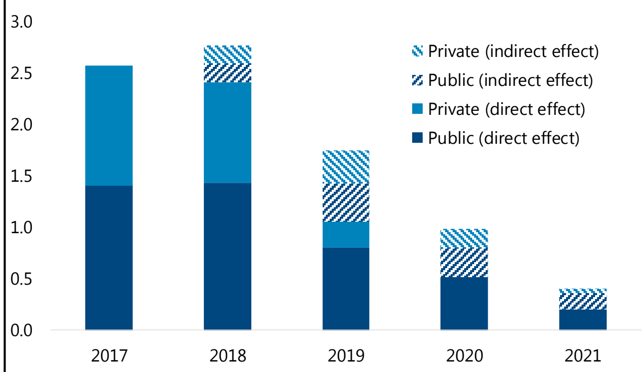
Source: Bloomberg.

1/ For further details on both events, see IMF Country Report No. 16/337.

OUTLOOK AND RISKS

10. The outlook remains strong. Growth is expected to rise slightly to 5.1 percent in 2017, supported by a large mining project and the expanded Canal. While investment is expected to moderate to more sustainable levels over the medium term, a wide range of investment projects should continue to support economic activity and strengthen Panama's position as a logistics and transportation hub. Financial conditions are expected to be less accommodative going forward, contributing to the realignment of investment. Medium-term growth of about 5.5 percent is expected to reflect a diversified set of activities including logistics and tourism (Selected Issues Paper I and Box III). The government's renewed emphasis on education reform, including the new technical institute to address skills gaps, will be key to moving up the value chain, especially in services. With the projected further normalization of fuel prices, inflation is expected to pick up to about 2 percent in 2017 and then return to the projected medium-term range of 2–2.5 percent.

Contribution to GDP growth
(percentage point)



Source: Fund staff calculations.

Planned and Ongoing Large-Scale Investment Projects 1/

Project	Value	Status
Public/government	8.94	
Metro line 2	2.10	ongoing
Tocumen terminal expansion	0.90	ongoing
3rd High-voltage transmission line	0.35	ongoing
4rd High-voltage transmission line	0.45	planned
Urban renewal of Colon	0.57	ongoing
3rd bridge over the canal	0.57	ongoing
Metro line 3	2.60	planned
4th bridge over the canal	1.20	planned
Technical Institute (ITSE)	0.20	ongoing
Private	7.74	
Minera Panama	5.50	ongoing
AES gas project	1.15	ongoing
Gas to Power Panama (Martano)	0.90	ongoing
Convention center Amador	0.19	ongoing
Total	16.68	
% of 2016 GDP	30.26	

Sources: News and Fund staff calculations.
1/ Not included: 4 key ACP projects and smaller highway sections.

11. **The outlook for the balance of payments is favorable.** While Panama's external position remains moderately weaker than warranted by medium-term fundamentals and desirable policy settings (Annex I), the current account deficit is expected to realign with the estimated norm, narrowing to about 3 percent of GDP over the medium term. The decline is expected to be largely driven by a diversification of exports into primary commodities as a new mine begins exporting. A continued recovery in global growth should support Panama's service exports and help offset an increase in imports associated with the projected rise in global commodity prices. FDI is expected to continue to finance the deficit.[4]

12. **Public debt is sustainable and fiscal consolidation is expected to continue in line with the SFRL deficit targets.** Higher revenues from the expanded Canal in 2017 of about 2.7 percent of GDP are projected to support the consolidation. The overall NFPS deficit is projected to gradually decline to about 1 percent of GDP over the medium term. Public debt remains sustainable with net debt projected to remain below the SFRL target of 40 percent of GDP (Annex II).

Panama: Medium-Term Fiscal Outlook

		Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021	2022
			(Percent of GDP)					
Nonfinancial public sector 1/								
Revenue	20.4	20.5	21.3	21.1	21.2	21.2	21.2	21.1
Expenditure	22.8	22.7	23.0	22.4	22.4	22.3	22.3	22.0
Overall balance	-2.3	-2.2	-1.7	-1.3	-1.2	-1.1	-1.1	-1.0
Stuctural primary balance	-0.8	-0.5	-0.1	0.2	0.2	0.3	0.3	0.4
Public Debt								
NFPS gross debt	38.8	38.8	38.0	36.5	35.3	34.0	32.8	31.5
NFPS net debt 2/	36.1	36.3	35.6	34.3	33.3	32.2	31.0	29.9

Sources: Ministry of Economy and Finance; and IMF staff calculations.
1/ Non-Financial Public Sector according to the definition in Law 31 of 2011.
2/ NFPS gross debt minus financial assets at Panama's Savings Fund (FAP)

[4] 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.

13. Risks are tilted to the downside (see Annex III and Selected Issues Paper II):

- **Domestic risks.** If progress in strengthening tax transparency and AML/CFT does not continue, Panama's reputation would be damaged, potentially prompting reduced external funding and access to international financial services as well as higher financing costs. Increased scrutiny of companies registered in Panama or in the transparency and efficiency of public investment could lead to a re-evaluation of Panama's role as an international financial and business center. Oversupply in segments of the property market could trigger a correction in prices and, combined with elevated household and corporate leverage and rising interest rates, trigger commensurate effects on financial stability and the real economy.

- **External risks:**

  - Weaker-than-expected global growth and a retreat from cross-border integration, particularly from trade, could lead to a slowdown in Canal activity, which would dampen Panama's growth and government revenue. However, a stronger-than-anticipated recovery in the United States or Latin America, Panama's key export markets, provides upside risks.

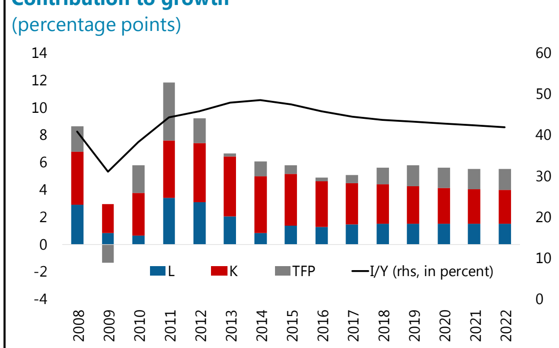
  - A faster-than-expected tightening of U.S. monetary policy and continued appreciation of the U.S. dollar would put continued appreciation pressure on Panama's REER and erode external competitiveness, while possible changes to U.S. corporate tax rules could reduce FDI into Panama both directly from the U.S. as well as from other countries. A rise in global interest rates would also be expected to put upward pressure on Panamanian interest rates and contribute to the turning of the credit cycle. Pressures on CBRs could adversely affect Panama's international financial center.

Authorities Views: The authorities broadly share staff's views on the outlook and risks, but are more optimistic about growth prospects for 2017 and over the medium term. Their optimism is based on a stronger projection for activity related to the expanded canal and positive spillovers from the expansion into other sectors, most notably the broader transportation and logistics sectors, as well as an expected stronger recovery of the Latin American region. They broadly agreed with staff's risk assessment and emphasized that the key risks stem from the uncertain external policy environment and possible implications for global trade. They agreed with staff's assessment of external stability and of public debt sustainability.

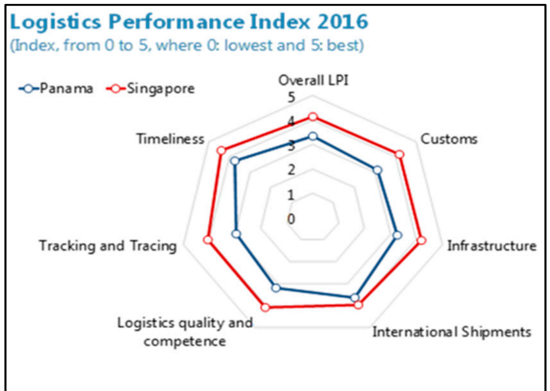
Box 3. Panama: Panama's Growth Prospects: Determinants and Sectoral Perspectives

The opening of the expanded Canal provides a unique opportunity to reevaluate Panama's growth model. A growth diagnostic exercise (Selected Issues Paper II) suggests that Panama is well-placed to maintain its business model. Panama's success has been founded on its strategic geographical position, which has been exploited to transform Panama into a transportation hub, while the favorable business environment has facilitated Panama's emergence as a regional business center. Improving the quality of education, strengthening governance, and reducing bureaucracy will be important to further cement Panama's competitiveness. Additional analysis suggests that investment will continue to support growth, while logistics and tourism hold particular promise to build on Panama's comparative advantages.

Investment is projected to remain a key driver of growth, albeit at a more sustainable pace. The extensive pipeline of investment projects implies a continued strong contribution from capital as a factor of production. Nonetheless, gross capital formation, which reached about 47 percent of GDP in 2016 due to very strong investment in recent years, is projected to gradually decline to a more sustainable level of about 42 percent of GDP. Capital's average contribution to growth will be about 1 percentage point lower than over the period 2008-2015 and is the key factor behind the revision of medium-term growth from about 6 percent in the 2016 Article IV consultation to about 5.5 percent.



Sources: Fund staff calculations.



Sources: LPI - World Bank and Fund staff calculations.

Panama's connectivity can be leveraged to strengthen its logistics and tourism industries. Panama shares some characteristics with Singapore: a favorable geographical location, economic and political stability, a network of free trade agreements, and established port and airport connectivity. Thus, Panama could draw on lessons from Singapore's transition into a global logistics hub to boost its logistics competitiveness. The expanded Canal could also support further development of Panama's ports and logistics industry, provided it does not cannibalize such activity as the larger vessels transit directly from source to destination, especially between Asia and North America. The tourism industry has high potential for growth based on Panama's connectivity. Tocumen airport is an important regional hub, but only about 10 percent of travelers transiting through the airport visit Panama. Capturing even a small share of transiting passengers as tourists holds considerable potential to boost economic growth. In addition, the expanded Canal provides an opportunity to grow the cruise segment. Diversifying Panama's tourism beyond Panama City, where it has been concentrated, by developing beach and eco-tourism can also support inclusive growth and a reduction in the significantly higher poverty rates in rural areas.

POLICY DISCUSSIONS

Discussions focused on progress in strengthening tax transparency and financial integrity, options to enhance the fiscal framework and improve monitoring of fiscal risks, and venues to strengthen financial sector oversight and the financial crisis management framework.[5]

A. Strengthening Tax Transparency and Financial Integrity

14. The fallout from the Mossack Fonseca documents increased the urgency for concrete policy actions to improve tax transparency. Panama committed to implement automatic exchange of tax information (AEOI) by 2018, and ratified the OECD's Multilateral Convention on Tax Matters and an agreement with the U.S. to implement the Foreign Account Tax Compliance Act (FATCA). The National Assembly has adopted crucial pieces of legislation to establish the legal basis for AEOI, enhance the revenue administration's powers, and oblige all companies and foundations registered in Panama to keep accounting records. The implementing legislation to operationalize these changes to the legal framework is expected to be finalized in the first half of 2017.

15. Measures to strengthen tax transparency and exchange of tax information remain top priorities. The authorities are firmly focused on addressing remaining deficiencies in tax transparency. These actions will be critical to avoid Panama's inclusion in the list of non-cooperative tax jurisdictions that the OECD will prepare in July 2017. Beyond reputational damage, inclusion may subject Panama to as-yet-unspecified 'defensive measures' by the G20. Panama must obtain at least a "partially compliant" rating in the Global Forum's fast-track assessment in mid-2017, following its rating as "non-compliant" in the latest peer review covering the period until June 2015. Critical to the assessment results will be Panama's ability to demonstrate availability of ownership and identity information and reliable accounting records for all relevant entities and an effective mechanism for information exchange. In this context, it is important to continue progress with strengthening the revenue administration's human, procedural, and ICT capacities.

16. Effective implementation of the AML/CFT framework to enhance financial integrity is a critical complement to strengthening tax transparency. The AML/CFT framework was strengthened through a series of legislative reforms in 2015, but important gaps remain, most notably to make tax crimes a predicate offence to money laundering.[6] To guide further reforms, the National Commission coordinating Panama's efforts to strengthen AML/CFT finalized the national risk assessment in January 2017.[7] The assessment, together with the 2012 Fund-led assessment, is guiding the development of Panama's national AML/CFT strategy, expected to be finalized and endorsed by the National AML/CFT Commission by mid-2017. In May 2017, Panama will be

[5] Annex IV provides an update on implementation of past IMF policy advice.

[6] See Box 1, IMF Country Report No. 16/337 for actions taken to strengthen the AML/CFT framework.

[7] The National Commission is headed by the Vice President and includes Ministers and other senior government officials and heads of agencies as members.

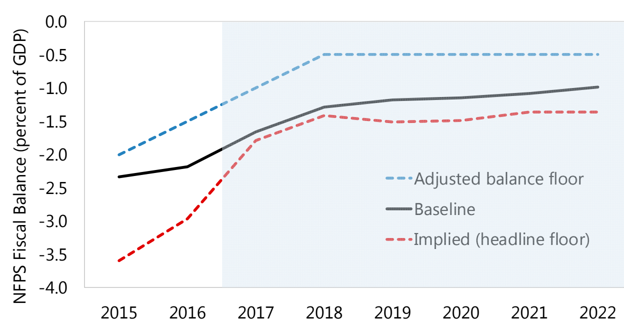
assessed on effective implementation of the 2012 FATF standard by the FATF-style regional body for Latin America, GAFILAT.[8] Supervisory capacity has been ramped up and progress is being made to implement the new framework, including by the new supervisor of non-financial entities. However, as Panama's strengthened legal framework for AML/CFT has been in place only since 2015, demonstrating its effective implementation will be an important challenge to receive a positive assessment.

Authorities' Views: The authorities reiterated their full commitment to tax transparency and financial integrity and remain confident that Panama will successfully complete the assessments by the Global Forum and the GAFILAT. They noted that they have invested considerable resources in strengthening the capacity of both the revenue administration and the relevant supervisory agencies to support exchange of tax information and effective implementation of the AML/CFT framework. Enhancing capacity, including with new ICT solutions, remains a priority. They agreed that a continued strengthening of AML/CFT will be important to preserve Panama's position as a regional financial center and for banks, faced by global trends in de-risking, to preserve their CBRs.

B. Supporting Sustainability with an Enhanced Fiscal Framework

17. The ongoing consolidation path consistent with the fiscal rule is broadly appropriate. While fiscal policy turned slightly pro-cyclical in the last two years, the mildly contractionary stance demonstrated commitment to fiscal discipline and strengthened credibility of the framework, which was damaged by a series of amendments several years ago. In particular, the authorities refrained from fully using the fiscal space created by the modification to the rule in 2012.[9] In light of this, the envisaged contractionary stance in 2017 appears appropriate. The consolidation strategy should put NFPS debt-to-GDP ratio on a downward trend and help to build buffers in light of possible fiscal risks, stemming from unfunded pension liabilities, turnkey projects, and contingent liabilities of public companies and the financial sector. Buffers are also needed to support fiscal policy's exclusive role to provide counter-cyclical impetus in the absence of monetary and macroprudential policies.

Fiscal Performance



Source: Panamanian authorities and Fund staff calculations.
Note: "Adjusted balance floor" corresponds to the maximum deficit if Canal contributions equal the threshold in the fiscal rule (3.5 percent of GDP). "Implied (headline floor)" refers to the maximum fiscal deficit implied under the modified SFRL with projected Canal contributions falling below the threshold. The difference between these two lines depicts the extra fiscal scape created by the over-optimistic threshold stated in the fiscal rule. The "baseline" projects that only a part of this extra space is actually used.

[8] The FATF in February 2016 removed Panama from its gray list.

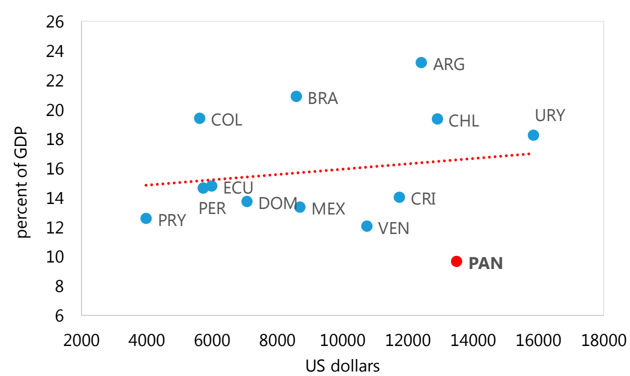
[9] The 2012 modification set the NFPS deficit ceiling on a balance "adjusted" for the shortfall of Canal contributions from a threshold (3.5 percent of GDP) instead of the headline balance. Canal contributions are not expected to reach this threshold, which implies that the maximum headline deficit is 1–1.5 percent of GDP higher than the "adjusted" deficit.

18. Fiscal risks and contingent liabilities need to be better monitored and addressed. The defined-benefit part of the public pension system is projected to deplete its reserves by 2027 and start generating expenditure pressures thereafter. Unfunded pension liabilities need to be addressed through parametric reform to avoid crowding out other public spending. In addition, turnkey contracts separate the timing of construction, the approval of the associated obligation by the Comptroller General's Office, and the registration as an expenditure, which occurs only when the cash transaction takes place. Publishing information on the different project stages (e.g. timing of construction), in addition to the published data on accrued obligations, would allow a more accurate assessment of the impact of fiscal policy on economic activity. Including all accrued liabilities for completed project phases in the debt figures and additional information on the unexecuted part of the turnkey contracts would also help improve transparency and monitoring of risks.[10] More generally, a comprehensive assessment of all contingent liabilities of the consolidated public sector is needed to ensure that the SFRL debt target results in adequate buffers to face fiscal risks.

19. Panama's fiscal framework could be further strengthened with the establishment of a fiscal council. The authorities are preparing draft legislation to introduce a fiscal council, which would publicly assess and monitor fiscal assumptions, plans and performance, including implementation of the fiscal rule. By fulfilling these functions, the fiscal council could improve transparency, promote accountability, and encourage informed public debate. Ensuring legal and operational independence of the council, and endowing it with adequate resources, are essential preconditions for its candid assessment.

20. Continued progress in strengthening tax administration is essential for generating resources to finance strategic public investment. The tax administration introduced important reforms, which helped increase revenues. Despite recent improvements in tax collection (with an increase of VAT collection by 17.5 percent), Panama's tax-to-GDP ratio, at about 10 percent, remains among the lowest in the region. Further measures to strengthen administration, such as through the introduction of electronic invoicing and modernization of IT systems could boost revenues over the medium term. These measures need to be complemented by policy actions to review and streamline the complicated scheme of tax incentives and exemptions that substantially erode Panama's tax base, starting by publishing a list of the estimated foregone revenues.

Tax revenues vs GDP per capita



Source: WEO database and Fund staff calculations.

[10] In addition, such recording of accrued liabilities is an important step in transitioning to accrual-based accounting. See IMF (2016), "Implementing Accrual Accounting in the Public Sector", Technical Notes and Manuals 16/06.

21. The customs administration continues to underperform. In contrast to the overall improvement in tax collection, revenues collected by the customs administration declined significantly, beyond that corresponding to subdued trade activity. Important weaknesses in institutional capacity and governance remain unaddressed. In particular, concrete measures are needed to reform control processes, enhance human resources, limit discretionary powers, improve collection, quality and management of data, and make progress with trade facilitation. Introducing performance indicators and monitoring them will support reform efforts.

Authorities' Views: The authorities are committed to continuing fiscal discipline in line with the fiscal rule targets. They aim to improve the monitoring of fiscal risks and work on preparing their first report on fiscal risks. They are particularly vigilant about the possible impact of such risks on crowding out of strategic public investment. The authorities are committed to ensuring adequate financing and operational independence of the fiscal council, and expect the draft legislation to be considered by the National Assembly in mid-2017. Emphasizing the significant improvement in tax performance, the authorities underlined that revenues will continue to increase with further tax administration reforms, such as the introduction of electronic invoicing with its pilot version scheduled to be unveiled by end-2017.

C. Strengthening Financial Sector Oversight and Crisis Management[11]

22. The financial system remains stable, but macrofinancial vulnerabilities require vigilance. As a regional center, financial sector assets are sizeable at 238 percent of GDP. Banks dominate the system, representing about 90 percent of assets, with offshore banks holding about 16 percent of bank assets. While offshore banks have limited linkages with the domestic economy, onshore banks' activities are closely intertwined with other segments of the financial system through their insurance and broker-dealer subsidiaries.[12] Credit to the domestic private sector is high compared to regional standards and Panama's level of economic development.[13] The rapid increase of debt, which occurred in an environment of very low interest rates, could present a significant risk as the anticipated increase in global interest rates would put pressure on Panamanian interest rates, where borrowing is primarily on a variable rate basis. Credit risks would rise, particularly in the event of a slowdown in the domestic economy or a correction in property prices, with anecdotal evidence suggesting oversupply in both residential and commercial real estate, with these risks reinforcing each other. While non-performing loans remain low and are well provisioned, they have been on an upward trend over 2016 that bears careful monitoring.

[11] Annex IV provides an update on implementation of recommendations from the 2011 FSAP.

[12] Offshore banks are prohibited from conducting domestic banking operations but do participate in the interbank market.

[13] Despite strong credit growth, the credit gap is only modestly positive. However, Panama has experienced a prolonged credit boom since 2000, when credit data became available, suggesting that credit risks may be higher than suggested by the credit gap.

23. Higher costs are expected to contribute to pressure to consolidate. The banking system is highly competitive with 55 banks serving the domestic economy including two state-owned banks.[14] While banks are well capitalized, capital adequacy is expected to decline as the ongoing transition to Basel III continues (Figure 5). Liquidity remains above regulatory norms, but is below Basel III requirements.[15] Moreover, profitability is on a downward trend in part as, in the competitive landscape, banks have not fully passed on rising costs (for funding and compliance). As cost pressures from the anticipated rise in global interest rates and compliance with international standards continue to rise, consolidation of the industry is widely anticipated. Although CBRs have been broadly stable, anecdotal evidence suggests that some smaller banks are facing challenges and these pressures are expected to contribute to consolidation.

Panama: Selected Financial Soundness Indicators Compared to Regional Peers

	Costa Rica **	Dominican Republic	Guatemala	Honduras *	Nicaragua ***	Panama***	El Salvador ***	CAPDR 2/	LA5 3/
Regulatory Capital to Risk-Weighted Assets	16.6	17.1	13.9	14.3	13.5	15.0	17.3	15.4	15.4
Capital to Assets Ratio	9.5	9.8	7.2	10.4	7.5	10.6	13.5	9.8	11.1
Nonperforming Loans (NPLs) to Total Loans Ratio	1.6	1.7	1.7	3.7	0.9	1.4	2.1	1.9	3.1
Provisions to Nonperforming Loans Ratio	144.9	166.1	68.9	105.9	248.6	80.6	n.a.	135.8	137.7
Return on Assets	0.6	1.9	1.8	2.0	3.4	1.3	0.9	1.7	1.8
Return on Equity	4.3	16.8	19.2	18.5	30.5	12.1	6.6	15.4	16.3
Liquid Assets to Total Assets Ratio	28.5	26.7	29.5	28.9	22.5	16.7	21.7	24.9	19.3

Sources: FSI database - IMF
1/ As of June 2016, unless noted otherwise.
* As of March 2016; ** As of September 2016; *** As of December 2016
2/ Comprises Costa Rica, Guatemala, El Salvador, Honduras, Dominican Republic, Nicaragua, and Panama.
3/ Comprises Brazil, Chile, Colombia, Mexico and Peru.

[14] The Panamanian banking system includes banks with both general and international (offshore) licenses. General license banks serve the domestic economy.

[15] IMF Country Report No. 16/337.

Panama: Financial Soundness Indicators

Panama	2014Q2	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Credit cycle	L	L	L	M	H	H	H	H	M	L	L
Change in credit / GDP ratio (pp, annual)	1.4	0.4	-3.3	4.9	5.4	7.8	5.2	5.0	3.8	0.7	2.4
Growth of credit / GDP (%, annual)	1.7	0.5	-3.5	5.5	6.2	8.9	5.8	5.4	4.2	0.7	2.5
Credit-to-GDP gap (st. dev)	-0.2	-0.1	0.2	0.9	-0.2	0.7	-0.1	0.6	-0.8	-0.8	-0.7
Balance Sheet Soundness	L	L	L	L	L	L	L	M	L	L	L
Balance Sheet Structural Risk	L	L	L	L	L	L	L	L	L	L	L
Deposit-to-loan ratio	109.6	109.2	108.9	109.6	108.0	106.8	105.2	106.0	106.3	103.2	104.2
Balance Sheet Buffers	L	L	L	L	L	L	L	M	L	L	L
Leverage	L	L	L	L	L	L	L	L	L	L	L
Leverage ratio (%)	10.2	10.3	10.1	10.1	10.1	10.1	10.1	10.4	10.6	10.9	10.6
Profitability	L	L	L	L	L	L	L	L	L	L	L
ROA	1.5	1.5	1.5	1.5	1.4	1.5	1.4	1.3	1.3	1.3	1.3
ROE	15.0	14.5	14.9	14.7	13.8	14.5	14.1	12.2	12.4	12.6	12.1
Asset quality	M	L	M	L	L	M	L	H	M	M	M
NPL ratio	1.2	1.1	1.3	1.1	1.1	1.2	1.2	1.5	1.3	1.3	1.4
NPL ratio change (%, annual)	10.8	-14.0	18.7	-18.1	-4.9	15.4	-11.2	32.7	14.5	8.0	17.6

24. Prudential regulations are being strengthened. Banks' capital regulations have been largely aligned with Basel III, with the introduction of capital regulations for banking groups an important step toward strengthening supervision of financial conglomerates. New regulations are anticipated to be put in place in the second half of 2017 that will complete the alignment of prudential regulations with Basel III. In particular, the liquidity coverage ratio will be introduced, with implementation expected in 2018, as well as capital charges for market and operational risk. The expected introduction of the liquidity coverage ratio in particular will be an important step to ensure resilience of the system. Risk-based supervision of non-bank financial institutions remains at a nascent stage and enhanced capacity will be needed to facilitate the transition.

25. Coordination of the monitoring of systemic financial stability risks across financial supervisors should be strengthened. The Financial Coordination Council (FCC) has taken steps to enhance oversight of financial conglomerates and deepen information exchange across supervisors.[16] Memoranda of Understanding (MOUs) are being finalized and, for the first time, joint inspections of financial conglomerates will take place in 2017. This is an important step forward to strengthen microprudential oversight and should be complemented with a deepening of coordination on systemic risk oversight. Over the medium term, moving toward a more centralized supervisory structure would facilitate systemic risk oversight given the importance of financial conglomerates.

26. Strengthening systemic oversight is an ongoing process. Under the leadership of the SBP, significant progress has been made to strengthen systemic risk oversight including through more intensified monitoring of credit risks with early warning indicators, stress tests, and a new financial stability index. Stress tests consider the impact of both macroeconomic and interest rate shocks to the banking sector (for baseline, moderate stress and severe stress scenarios) through their impact on nonperforming loans and bank capital adequacy and conclude that banks' capital, on average, would remain adequate even in the event of severe macroeconomic and interest rate

[16] These efforts have been facilitated by the SBP and the Supervisors of Insurance and of Securities Markets given responsible for oversight of financial conglomerates.

shocks. Data gaps continue to hinder adequate monitoring of sectoral risks, particularly related to households, with efforts underway to develop new data on household income and indebtedness as well as property prices. With the build-up of household credit presenting the most pressing financial stability risk, these efforts are welcome and should be expanded to the corporate sector. The SBP has also begun to monitor structural risks to financial stability by developing a methodology to identify systemically important banks based on the Basel Committee's methodology, and plans to begin network analysis of banks' interconnections.[17]

27. A framework for macroprudential policy should be established (see Selected Issues Paper III). Macroprudential policy can provide important policy flexibility to address macro-financial risks. To enhance the resilience of the financial system and limit procyclicality, additional capital buffers could be considered, particularly for systemically important financial institutions, with calibration taking into consideration existing dynamic provisioning requirements. At the sectoral level, the priority should be to develop macroprudential policy tools targeted at the household sector, where macro-financial risks appear to be concentrated. The design of these tools, which could include limits on loan-to-value ratios, maximum debt-to-income and debt-service-to-income ratios, will need to be informed by additional data on household balance sheet vulnerabilities and property prices. Staff encouraged the SBP to develop regulatory and supervisory tools in tandem with enhanced monitoring of systemic risks.

28. As a regional financial center, Panama needs a robust crisis management framework. With no central bank, Panama lacks a lender of last resort to provide liquidity in the event of a systemic shock. The Banco Nacional de Panama, a state-owned commercial bank, introduced a $500 million repo facility for local banks in 2016. While welcome, its coverage would be inadequate for systemic shocks and a liquidity facility with adequate resources to address systemic shocks should be established as a complement. Deposit insurance also remains an important gap in the financial safety net. Ongoing bank resolutions have been prolonged due to the SBP's inadequate resolution powers, underscoring the need to upgrade the framework to provide the SBP with sufficient powers to effectively resolve financial institutions.[18] Finally, a crisis management plan should be elaborated to coordinate the response of supervisory agencies. The FCC should be tasked with preparing such a plan, including through undertaking hypothetical simulation exercises.

Authorities' Views: The authorities agreed with the importance of a continued strengthening of financial sector oversight in the context of Panama's regional financial center. They noted that they have expanded coordination and cooperation across supervisors, both within Panama in the context of the FCC and across borders in cooperation with host supervisors of Panamanian banks and home supervisors of foreign banks operating in Panama, including through active participation in supervisory colleges. They indicated that they are considering moving toward a more consolidated

[17] Panama is also participating in a regional initiative, coordinated through the Central American Council of Superintendents of Banks, Insurers, and other Financial Institutions (CCSBSO), to strengthen the monitoring of systemic risks to regional financial stability.

[18] Two bank resolutions are ongoing representing a small share of banking system assets. The resolutions are related to compliance issues and have been orderly.

structure of supervision to facilitate supervision of financial conglomerates. They agreed with the importance of strengthening oversight of systemic risk and noted that improved data will be a precursor to developing a framework and tools for macroprudential policy. The crisis management framework is unlikely to be updated in the near-term given moral hazard and funding concerns regarding a liquidity facility and deposit insurance. The authorities indicated that they maintain a strong focus on early detection of risks and intervention to maintain financial stability.

D. Other

29. Statistics are broadly adequate for surveillance, but can be improved in several areas through further strengthening of capacities. In particular, there is ample scope to improve the timeliness and quality of expenditure-side national accounts. Gaps remain in financial sector data, including on housing prices, household and corporate indebtedness, which limit systemic risk assessment in the financial system.

STAFF APPRAISAL

30. Economic activity remains among the most vibrant in the region. Medium-term growth prospects are strong, with sectors such as logistics and tourism providing potential to further boost activity. The policy environment should support future growth, especially with measures to address skill gaps, the quality of education, and high income inequality. Panama's external position remains moderately weaker than suggested by fundamentals, but is on track to return to its norm over the medium-term. The current account deficit is expected to continue to benefit from stable financing, predominately from FDI. Risks relate mainly to progress with tax transparency and financial integrity and to heightened uncertainty in the external policy environment, primarily related to developments in global trade and interest rates.

31. Measures to strengthen tax transparency and ensure effective exchange of tax information must remain at the top of the policy agenda. Building on considerable progress over the last year, policy efforts should focus on addressing remaining deficiencies to preserve Panama's position as a competitive and attractive destination for international financial and business services. In particular, it is essential to demonstrate the availability of ownership information and reliable accounting records for all relevant entities registered in Panama, and put in place an effective mechanism for exchange of tax information. Continued actions to strengthen the tax administration's capacity are critical.

32. Enhancing financing integrity through effective implementation of Panama's AML/CFT framework must remain a strategic priority to safeguard Panama's role as a regional financial center. The legal framework needs to be fully aligned with international standards, including by making tax crimes a predicate offence to money laundering. The National Commission should continue to play a central role in coordinating Panama's efforts to combat AML/CFT risks. Effective implementation of the strengthened AML/CFT framework will be critical to receiving a positive assessment by GAFILAT.

33. Efforts to further strengthen the fiscal framework should continue. The medium-term consolidation plan implies a downward trajectory for public debt, which helps build buffers to address possible fiscal risks. Adhering to this strategy will continue to demonstrate the authorities' commitment to fiscal discipline and will strengthen the credibility of the fiscal framework. The authorities' plan to establish a fiscal council could improve transparency, promote accountability of the fiscal framework, and encourage an informed public debate.

34. Assessment and management of public sector fiscal risks and contingent liabilities should be improved. A comprehensive assessment of public sector fiscal risks, such as those related to unfunded pension liabilities, turnkey projects, and contingent liabilities of public companies will help gauge the adequacy of fiscal buffers. With limited fiscal revenues, better management of these risks is essential to help avoid crowding out strategic public investment.

35. Building on recent progress, the tax administration should continue to be strengthened. Despite recent improvements, Panama's tax revenues remain among the lowest in the region. Measures to further enhance tax administration need to be complemented with policy actions to streamline tax incentives and exemptions. Publishing estimates of foregone revenue from each of these incentives can subject them to public scrutiny and build momentum for reform.

36. The customs administration needs to address weaknesses in institutional capacity and governance. Tangible progress is essential in improving data quality and management, reforming control processes, enhancing human resources, limiting discretionary powers, and moving forward with trade facilitation.

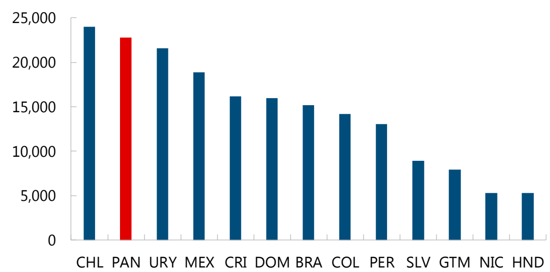
37. Financial sector oversight, macroprudential policy, and crisis management should be strengthened to build resilience. The steps being taken to fully align prudential regulations with Basel III are welcome and will enhance the resiliency of the financial system. Resiliency will also be strengthened by ongoing efforts to improve oversight through enhanced coordination of microprudential supervision across supervisors and these efforts should be deepened to include the monitoring of systemic risks. To complement these efforts, macroprudential policy tools targeted toward addressing the risks presented by Panama's financial conglomerates and household debt should be developed to provide more policy flexibility in managing macrofinancial risks. Finally, Panama's crisis management framework should be strengthened by establishing a temporary liquidity facility for banks to address systemic shocks, improving the SBP's bank resolution powers, introducing deposit insurance, and developing a framework to coordinate the response of supervisory agencies to risks to financial stability.

38. Staff propose that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Panama: Socio-Economic Indicators

Per capita income in Panama is among the highest in Latin America...

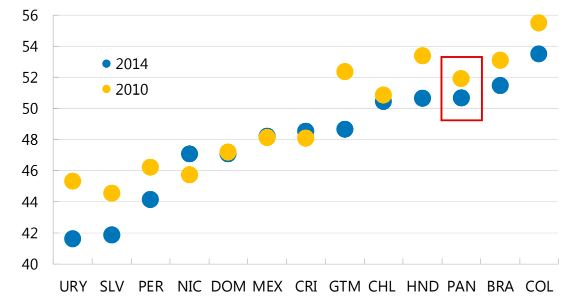
PPP GDP per capita, 2016 1/



Sources: WEO October 2016 database and Fund staff calculations.
1/ Countries selected belong to group of LA6 (Brazil, Chile, Colombia, Mexico, Peru and Uruguay) and CAPDR (Costa Rica, Honduras, Nicaragua, El Salvador, Dominican Republic, Guatemala and Panama).

...but the gains have not been shared equally, with income inequality higher than regional peers.

GINI Index 1/

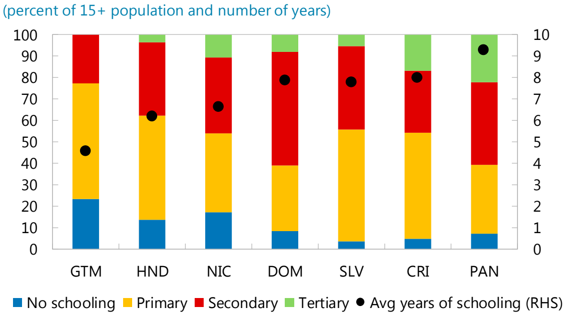


Sources: World Bank and Fund staff calculations.
1/ Higher index = Higher income inequality.
Note: In 2010 series, data for Nicaragua corresponds to 2009 and for Guatemala, Chile and Brasil to 2011. In 2014 series, data for Dominican Republic and Chile correspond to 2013.

Panama has a higher educational attainment than other CAPDR countries.

Education attainment in 15+ population , 2010

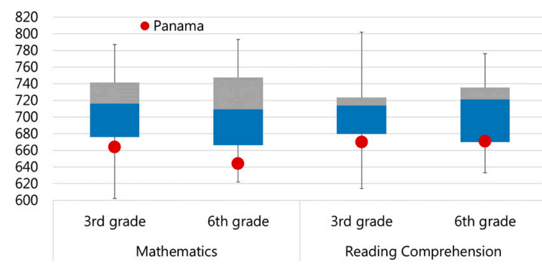
(percent of 15+ population and number of years)



Sources: Barro, Robert and Jong-Wha Lee, 2013, "A New Data Set of Educational Attainment in the World, 1950-2010." *Journal of Development Economics*, vol 104, pp.184-198.

...but the quality of education is below the LAC average, although comparable to other CAPDR countries.

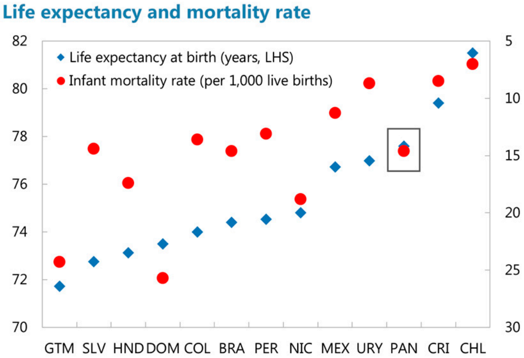
UNESCO Student achievment, 2013 1/ 2/



Source: UNESCO Third Regional Comparative Studies on Primary Education TERCE and Fund staff calculations.
1/ Chart includes data from CAPDR countries and LA6.
2/ Bottom of blue box = 1st quintile; Top of blue box/Bottom of grey box = Median ; Top of grey box = 3rd quintile.

Life expectancy is higher than in most LAC countries, with infant mortality comparable to regional peers.

Life expectancy and mortality rate

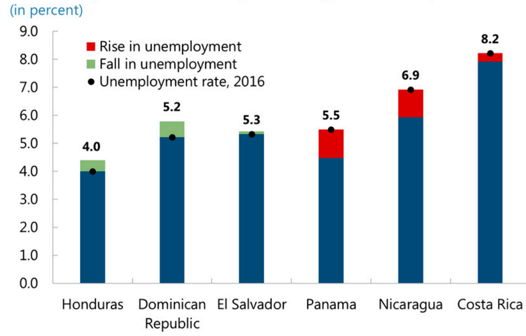


Sources: World Bank and Fund staff calculations.

Unemployment has risen, but remains comparable to regional peers.

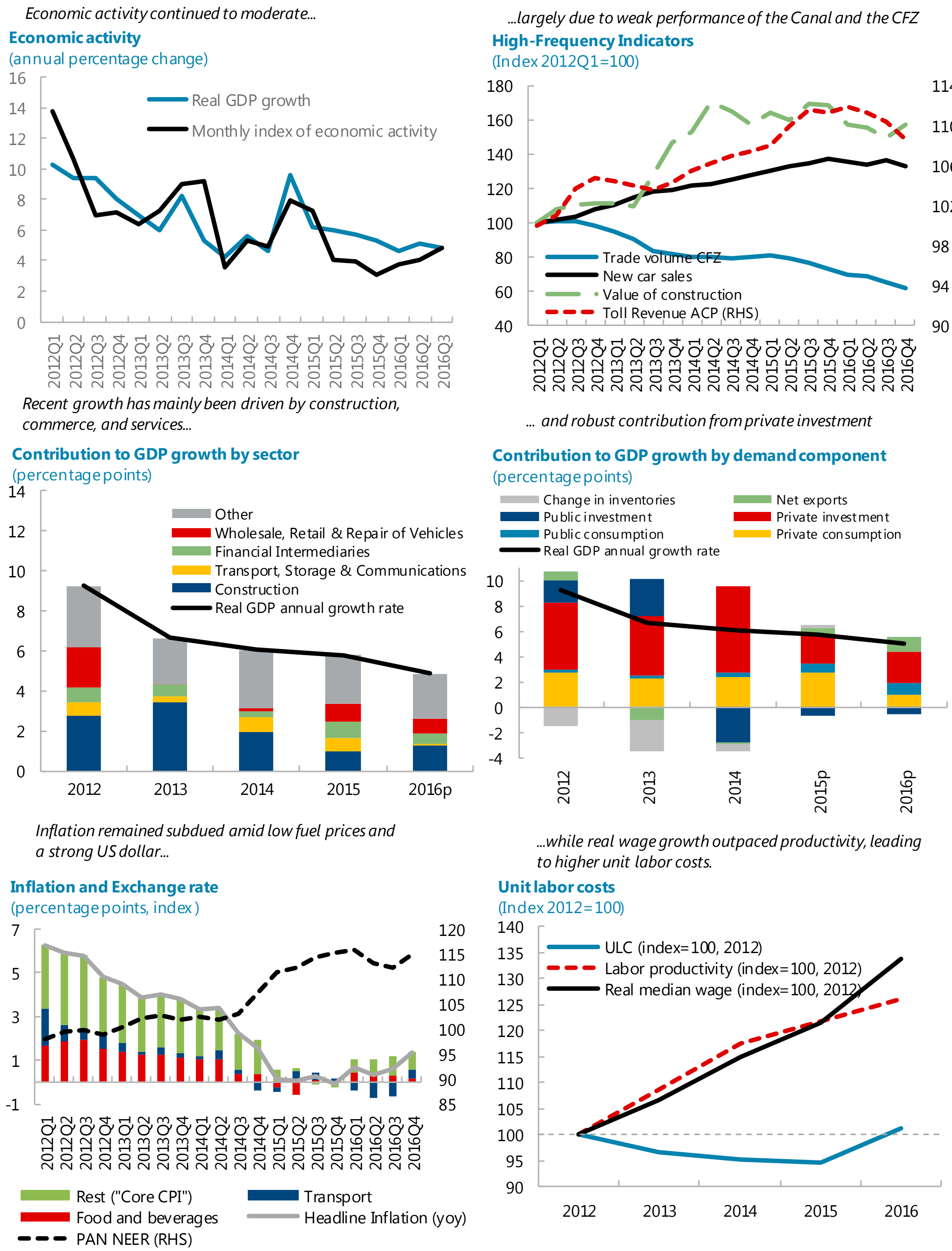
Unemployment rate changes during the last 5 years

(in percent)



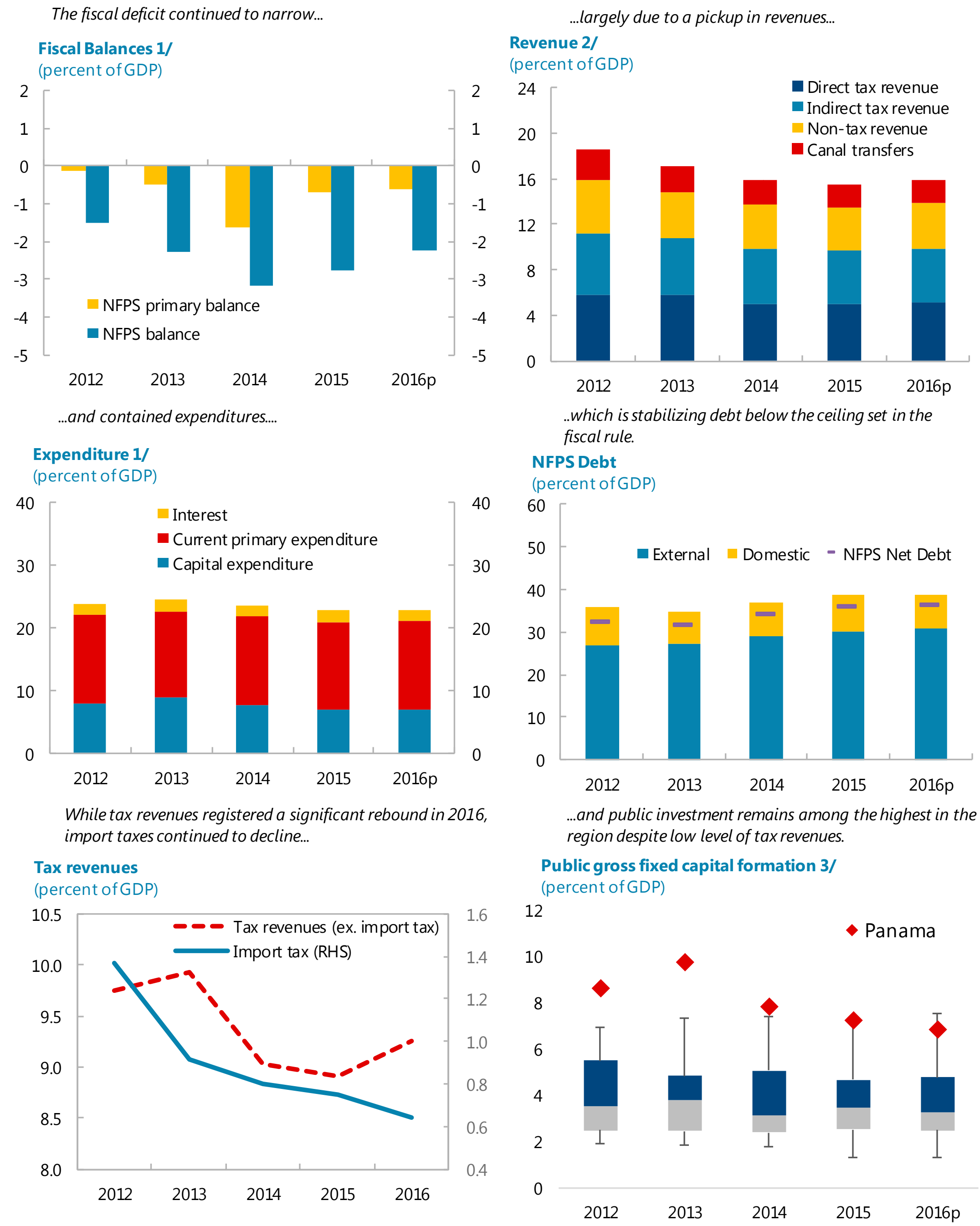
Sources: IMF WEO; and Fund staff calculations.

Figure 2. Panama: Real Sector Developments, 2012–2016



Source: National Authorities; and IMF staff calculations.

Figure 3. Panama: Fiscal Sector Developments, 2012–2016

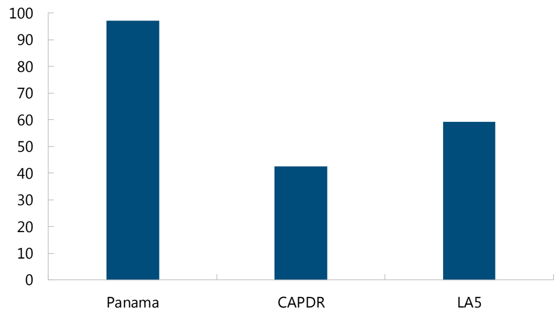


Sources: National Authorities, WEO database and IMF staff calculations.
1/ Non-financial Public Sector.
2/ Data refer to the Central Government
3/ Countries considered in chart are CAPDR (Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica, Dominican Republic) and LA6 (Brazil, Chile, Colombia, Mexico, Peru and Uruguay).

Figure 4. Panama: Macrofinancial Developments

Private credit is high compared to regional standards and Panama's level of economic development.

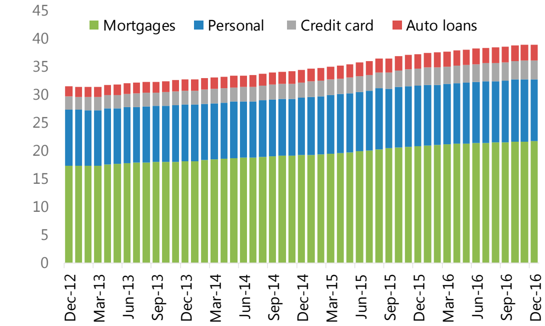
Credit to the Private Sector 1/
(2016; in percent of GDP)



Sources: WDI-World Bank and Fund staff calculations.
1/ Data for CAPDR and LA5 correspond to 2015.

Credit to households is on an upward trend…

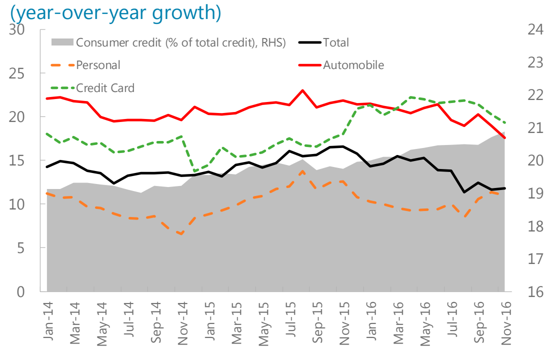
Credit to Households
(in percent of GDP)



Source: SBP and Fund Staff calculations.

…as consumer credit has been expanding rapidly, despite some recent signs of moderation,…

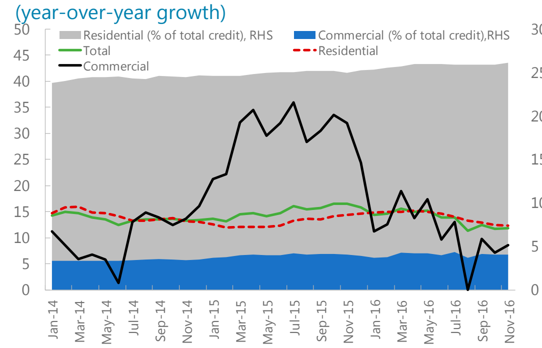
Consumer Credit
(year-over-year growth)



Sources: SBP; Fund staff calculations.

…as has mortgage credit.

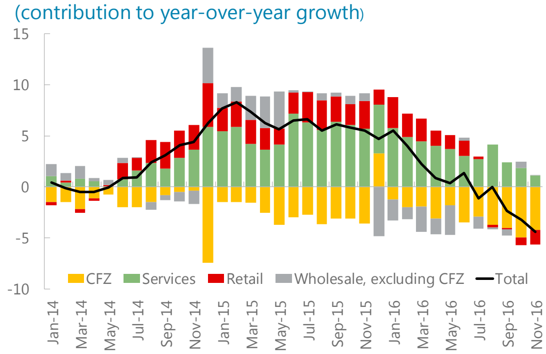
Mortgage Credit
(year-over-year growth)



Sources: SBP; Fund staff calculations.

Credit to businesses has been expanded less rapidly, mainly due to a contraction in credit to the CFZ.

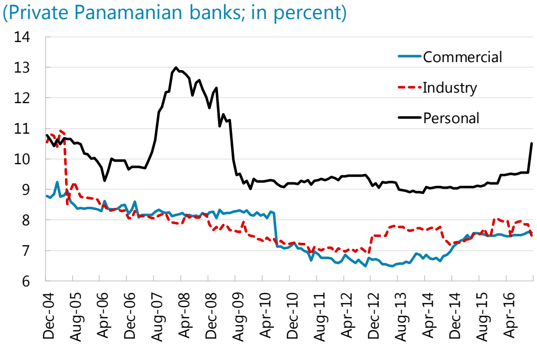
Credit to Commerce
(contribution to year-over-year growth)



Sources: SBP; Fund staff calculations.

Interest rates have ticked up and could face additional upward pressure from global interest rates.

Interest Rates; 1-5 years duration
(Private Panamanian banks; in percent)

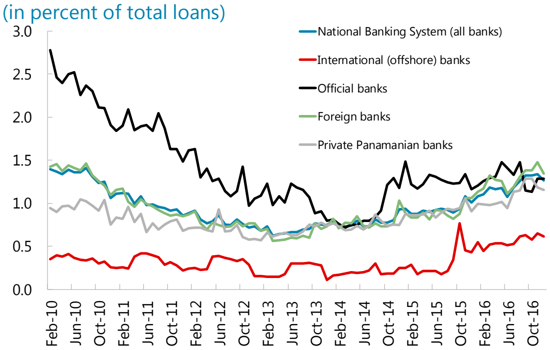


Source: SBP and Fund staff calculations.

Figure 5. Panama: Banking Sector Soundness

Nonperforming loans remain low, but have been rising since 2014 and warrant close monitoring in light of strong credit expansion.

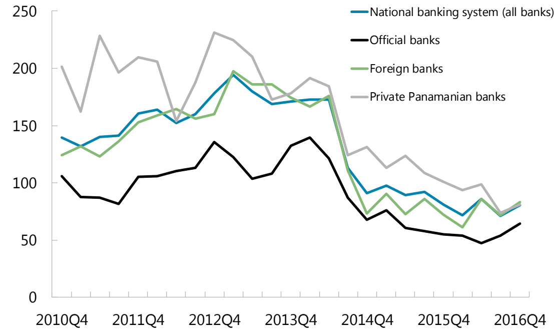
Panama: Nonperforming Loans
(in percent of total loans)



Source: SBP.

Provisioning has fallen but remains adequate.

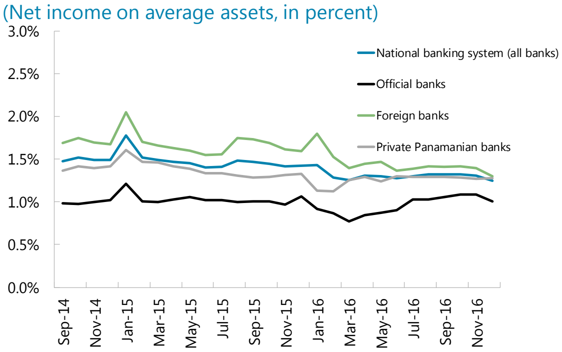
Panama: Provisioning
(in percent of total nonperforming loans)



Source: SBP.

Bank profitability has been on a moderate downward trend…

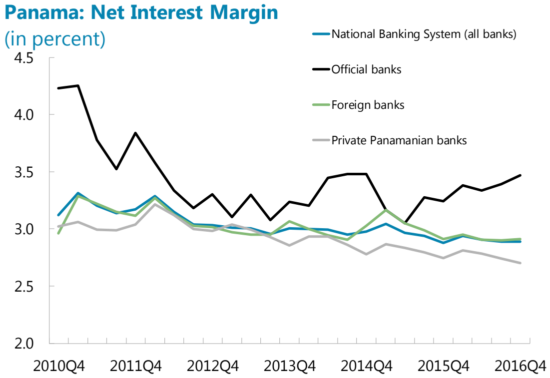
Panama: Return on Assets
(Net income on average assets, in percent)



Source: SBP.

…with net interest margins under downward pressure.

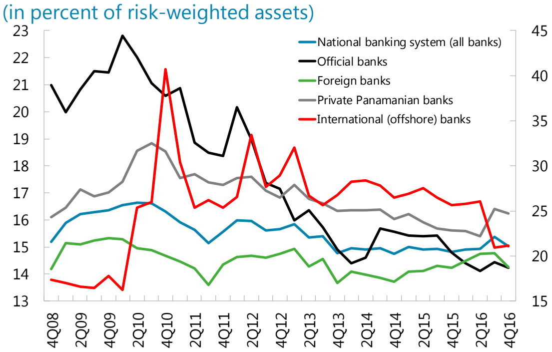
Panama: Net Interest Margin
(in percent)



Source: SBP.

Capital adequacy remains in excess of regulatory minimum but has fallen with strong credit growth.

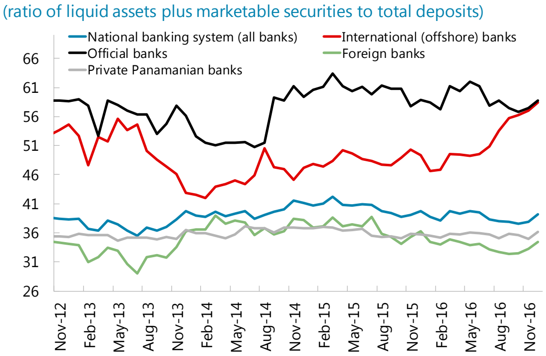
Panama: Capital Adequacy Ratio
(in percent of risk-weighted assets)



Source: SBP.

Bank liquidity has remained stable.

Panama: Bank Liquidity
(ratio of liquid assets plus marketable securities to total deposits)



Source: SBP.

Table 1. Panama: Selected Economic and Social Indicators

Population (millions, 2015)	3.9	Poverty line (percent, 2015)	23.0
Population growth rate (percent, 2015)	1.6	Adult literacy rate (percent, 2010)	94.0
Life expectancy at birth (years, 2014)	77.6	GDP per capita (USD, 2015)	13,268.1
Total unemployment (August, 2016)	5.5	IMF Quota (SDR, million)	376.8

					Est.	Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(Percent change)						
Production and prices											
Real GDP (1996 prices)	9.2	6.6	6.1	5.8	4.9	5.1	5.6	5.8	5.6	5.5	5.5
Consumer price index (average)	5.7	4.0	2.6	0.1	0.7	2.0	2.3	2.5	2.4	2.3	2.3
Consumer price index (end-of-year)	4.6	3.7	1.0	0.3	1.5	2.5	2.3	2.5	2.4	2.3	2.3
Output gap (% of potential)	1.5	1.0	0.6	0.4	-0.3	-0.6	-0.3	-0.1	0.0	0.0	0.0
Domestic demand (at constant prices)											
Public consumption	1.9	2.1	3.0	7.0	8.9	10.4	4.7	5.0	5.7	5.5	5.5
Private consumption	4.9	4.2	4.6	4.1	5.1	2.8	5.3	3.0	6.2	6.5	6.4
Public investment 1/	21.8	33.4	-25.8	-8.8	-2.4	-11.2	-5.2	6.1	3.7	5.0	2.3
Private investment	20.5	16.5	22.3	6.5	3.3	5.3	4.6	3.5	3.9	3.3	3.7
Financial sector											
Private sector credit	14.7	13.3	10.2	11.6	8.3	6.6	6.9	7.3	7.1	7.0	7.0
Broad money	11.4	7.2	8.2	5.5	4.1	7.2	8.1	8.4	8.1	7.9	7.8
Average deposit rate (1-year)	2.7	2.7	2.7	2.7	…	…	…	…	…	…	…
Average lending rate (1-year)	7.2	7.2	7.4	7.7	…	…	…	…	…	…	…
External trade											
Merchandise exports	21.1	-2.2	-9.4	-24.4	-8.3	3.1	25.7	38.3	17.3	5.2	5.4
Merchandise imports	16.4	1.3	5.2	-17.3	-7.2	6.6	9.0	8.9	10.3	8.2	7.8
					(In percent of GDP)						
Saving-investment balance											
Gross domestic investment	44.4	45.8	47.0	46.6	46.3	45.2	44.2	43.2	42.4	41.5	40.7
Public sector	8.7	10.8	7.7	6.6	6.1	5.2	4.7	4.7	4.6	4.6	4.4
Private sector	35.7	35.0	39.4	40.0	40.2	40.0	39.5	38.6	37.8	37.0	36.2
Gross national saving	34.0	36.0	33.4	39.3	41.0	40.5	39.7	40.0	39.2	38.3	37.6
Public sector	7.5	7.3	5.4	5.1	5.7	6.6	6.1	6.4	6.4	6.6	6.6
Private sector	26.5	28.7	27.9	34.2	35.3	33.8	33.5	33.5	32.7	31.5	30.8
Public finances 1/											
Revenue and grants	25.9	25.4	23.6	23.4	23.4	23.5	23.3	23.5	23.4	23.2	23.1
Expenditure	28.8	29.3	28.3	27.7	26.4	25.5	24.8	24.7	24.5	24.5	23.9
Current, including interest	17.9	17.2	17.5	18.4	17.8	18.2	18.2	18.1	18.1	18.0	17.7
Capital	10.9	12.2	10.8	9.3	8.6	7.3	6.5	6.6	6.5	6.4	6.2
Overall balance, including ACP 2/	-3.0	-4.0	-4.7	-4.3	-3.0	-2.0	-1.4	-1.2	-1.1	-1.2	-0.8
Overall balance, excluding ACP 2/	-1.4	-2.3	-3.3	-2.3	-2.2	-1.7	-1.3	-1.2	-1.1	-1.1	-1.0
Total public debt											
Debt of Non-Financial Public Sector 3/	35.7	35.0	37.1	38.8	38.8	38.0	36.5	35.3	34.0	32.8	31.5
External	27.0	27.3	29.2	30.0	30.7	29.0	26.8	24.6	21.0	19.3	18.0
Domestic	8.7	7.7	7.9	8.8	8.2	8.9	9.7	10.7	13.0	13.5	13.4
Debt of ACP	2.5	3.2	4.7	5.3	5.0	4.3	3.6	3.0	2.4	2.0	1.6
Other 4/	4.7	4.2	3.8	3.4	4.1	3.9	3.6	3.3	3.1	2.8	2.6
External sector											
Current account	-10.5	-9.8	-13.7	-7.3	-5.6	-6.2	-5.8	-3.6	-3.2	-3.2	-3.0
Net exports from Colon Free Zone	1.0	2.2	1.7	0.3	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Net oil imports	8.1	6.5	6.6	3.6	3.1	4.0	4.0	3.9	3.8	3.6	3.4
Foreign direct investment	8.7	8.1	8.4	7.6	9.2	8.9	8.6	7.6	7.4	7.3	7.0
External Debt	136.8	132.0	136.4	141.9	131.8	126.5	120.6	114.4	106.9	101.2	96.9
External public debt 5/	29.5	30.5	33.9	35.3	35.7	33.3	30.4	27.5	23.5	21.2	19.6
Foreign liabilities of the private sector	107.3	101.5	102.5	106.6	96.2	93.2	90.2	86.8	83.4	80.0	77.3
Foreign liabilities of the private sector, excluding domestic banks	48.0	44.4	43.7	43.2	34.1	33.1	31.8	30.3	28.5	26.6	25.4
Foreign liabilities of the private sector, excluding offshore banks	69.6	66.5	66.0	69.0	67.4	65.5	63.8	62.0	60.2	58.6	57.1
Foreign liabilities of the private sector, excluding all banks	10.3	9.4	7.2	5.6	5.3	5.4	5.4	5.4	5.3	5.3	5.2
Memorandum items:											
GDP (in millions of US$)	39,955	44,856	49,166	52,132	55,188	59,139	63,905	69,276	74,930	80,886	87,290

Sources: Comptroller General; Superintendency of Banks; and IMF staff calculations.
1/ Includes Panama Canal Authority (ACP).
2/ Starting from 2015, includes overspending allowed under Article 34 of Law 38 of 2012.
3/ Non-Financial Public Sector according to the definition in Law 31 of 2011.
4/ Includes contingent liabilities of ENA, ETESA, and AITSA.
5/ Includes the ACP.

Table 2. Panama: Summary Operations of the Non-Financial Public Sector 1/

(In percent of GDP)

	2012	2013	2014	2015	Proj. 2016	Proj. 2017
Revenues	22.4	22.2	20.4	20.4	20.5	21.3
Current revenue	22.3	21.7	20.2	20.3	20.5	21.3
Tax revenue	11.1	10.8	9.8	9.7	9.9	10.0
Nontax revenue	4.8	4.0	3.9	3.8	3.9	4.6
o/w: Panama Canal fees and dividends	2.6	2.2	2.1	1.9	2.0	2.7
Social security agency	5.5	6.0	5.7	5.8	6.0	6.0
Public enterprises' operating balance	0.3	0.3	0.2	0.2	0.3	0.3
Other 2/	0.6	0.6	0.6	0.8	0.4	0.4
Capital revenue	0.1	0.4	0.2	0.1	0.0	0.0
Expenditure	23.9	24.4	23.6	22.8	22.7	23.0
Current primary expenditure	14.2	13.7	14.1	14.1	14.1	14.7
Central government 3/	8.5	7.9	8.5	8.4	8.1	8.3
Rest of the general government	5.7	5.8	5.6	5.7	5.9	6.4
Social security agency	5.2	5.4	5.2	5.2	5.5	5.9
Decentralized agencies	0.5	0.4	0.4	0.5	0.5	0.5
Interest	1.8	1.8	1.7	1.8	1.7	1.5
Capital	7.9	8.9	7.8	6.9	6.9	6.8
Overall balance, excluding ACP 4/	-1.4	-2.3	-3.3	-2.3	-2.2	-1.7
Panama Canal Authority (ACP)						
Revenue	6.0	5.4	5.4	4.9	4.9	4.9
Current primary expenditure	1.8	1.6	1.6	2.4	1.9	1.8
Transfers to the government	2.6	2.2	2.1	1.9	2.0	2.7
Interest payments	0.1	0.1	0.1	0.1	0.2	0.2
Capital expenditure	3.1	3.2	3.0	2.4	1.7	0.5
Overall balance	-1.5	-1.8	-1.4	-2.1	-0.9	-0.3
Overall balance, including ACP	-3.0	-4.0	-4.7	-4.3	-3.0	-2.0
Net financing, excluding ACP	2.7	2.5	4.1	2.8	2.2	1.7
External	0.8	2.5	4.5	2.5	2.3	0.4
Domestic	1.9	0.0	-0.3	0.3	-0.1	1.3
Memorandum items:						
Primary balance (excluding ACP)	-0.1	-0.5	-1.6	-0.7	-0.6	-0.3
Structural primary balance (excluding ACP) 5/	-0.5	-0.7	-1.7	-0.8	-0.5	-0.1
Primary balance (including ACP)	-1.0	-2.0	-2.8	-2.4	-1.2	-0.3

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/ Starting from 2015, includes overspending allowed under Article 34 of Law 38 of 2012.

5/ Primary balance adjusted for the output gap.

Table 3. Panama: Summary Operations of the Central Government

(In percent of GDP)

	2012	2013	2014	2015	Proj. 2016	Proj. 2017
Revenues and grants	16.0	15.2	13.8	13.6	13.8	14.6
Current revenue	15.9	14.9	13.7	13.5	13.8	14.6
Taxes	11.1	10.8	9.8	9.7	9.9	10.0
Direct taxes	5.8	5.8	5.0	4.9	5.1	5.1
Income tax	5.2	5.2	4.4	4.4	4.6	4.6
Tax on wealth	0.6	0.6	0.6	0.5	0.5	0.5
Indirect taxes	5.3	5.0	4.8	4.7	4.8	4.9
Import tax	1.4	0.9	0.8	0.7	0.6	0.7
ITBMS	2.7	2.8	2.7	2.5	2.7	2.7
Petroleum products	0.3	0.3	0.3	0.5	0.5	0.5
Other tax on domestic transactions	1.0	1.0	1.1	1.0	1.0	1.0
Nontax revenue	4.8	4.0	3.9	3.8	3.9	4.6
Dividends	4.9	4.2	3.8	3.5	3.8	5.1
Of which: Panama Canal Authority	1.6	1.4	1.3	1.2	1.3	1.9
Panama Canal Authority: fees per ton 1/	1.0	0.8	0.8	0.7	0.7	0.8
Transfers from decentralized agencies	0.6	0.5	0.5	0.6	0.6	0.5
Other	-1.6	-1.5	-1.2	-1.0	-1.1	-1.8
Capital revenue	0.0	0.3	0.1	0.1	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	19.4	19.2	18.0	17.7	17.3	17.1
Current	11.3	10.7	11.2	11.5	11.0	11.0
Wages and salaries	4.0	3.9	4.0	4.2	4.3	4.3
Goods and services	1.6	1.5	1.8	1.5	1.2	1.4
Current expenditure of CSS	0.6	0.5	0.5	0.7	0.6	0.6
Transfers to public and private entities	3.3	2.9	3.2	3.3	3.2	3.2
Interest	1.8	1.8	1.7	1.8	1.7	1.5
Domestic	0.2	0.3	0.4	0.4	0.4	0.3
External	1.6	1.5	1.4	1.4	1.3	1.2
Capital	8.1	8.5	6.8	6.2	6.3	6.1
Savings 2/	4.7	4.2	2.5	2.0	2.8	3.6
Overall balance 3/	-3.4	-4.0	-4.2	-4.2	-3.5	-2.5
Financing (net)	0.9	3.9	4.3	3.5	3.2	2.3
External	0.8	2.5	4.5	2.5	2.3	0.4
Domestic	0.1	1.4	-0.1	1.0	0.9	1.9
Memorandum items:						
Primary balance	-1.6	-2.2	-2.5	-2.4	-1.8	-1.0
GDP (in millions of US$)	39,955	44,856	49,166	52,132	55,188	59,139

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

1/ Includes public service fees.

2/ Current revenues and grants less current expenditure.

3/ Starting from 2015, includes overspending allowed under Article 34 of Law 38 of 2012.

Table 4. Panama: Summary Balance of Payments
(in millions of U.S. dollars, unless otherwise specified)

						Projection					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(In millions of U.S. dollars)						
Current account	**-4,177**	**-4,401**	**-6,730**	**-3,798**	**-3,098**	**-3,649**	**-3,711**	**-2,508**	**-2,417**	**-2,595**	**-2,632**
Merchandise trade balance excluding Colón Free Zone	-10,262	-10,533	-11,641	-9,877	-9,197	-9,884	-10,362	-10,378	-11,140	-12,207	-13,288
Exports, f.o.b.	3,884	3,799	3,443	2,604	2,387	2,461	3,095	4,280	5,021	5,283	5,567
Imports, f.o.b.	-14,145	-14,332	-15,084	-12,481	-11,584	-12,345	-13,457	-14,658	-16,161	-17,491	-18,855
Merchandise trade balance from Colón Free Zone	392	994	818	168	412	419	430	448	472	497	522
Re-exports, f.o.b.	14,387	13,258	11,529	10,180	9,317	9,478	9,734	10,145	10,678	11,262	11,815
Imports, f.o.b.	-13,995	-12,265	-10,710	-10,011	-8,906	-9,059	-9,304	-9,697	-10,206	-10,764	-11,293
Services, net	7,872	7,783	7,789	10,036	10,311	11,002	11,894	12,891	13,937	15,032	16,238
Travel, net	2,598	2,624	2,731	3,335	3,553	3,817	4,190	4,615	5,057	5,519	6,026
Transportation, net	2,371	2,694	3,231	3,398	3,649	3,854	4,105	4,374	4,661	4,960	5,298
Other services, net	2,904	2,466	1,827	3,304	3,109	3,331	3,599	3,901	4,219	4,554	4,914
Income, net	-2,268	-2,707	-3,815	-4,017	-4,469	-5,020	-5,493	-5,274	-5,476	-5,691	-5,858
Private sector	-1,670	-2,085	-3,216	-3,325	-3,746	-4,258	-4,725	-4,506	-4,754	-5,022	-5,214
Of which: Direct investment	-2,071	-2,508	-3,635	-3,813	-4,221	-4,739	-5,091	-4,875	-5,127	-5,400	-5,595
Public sector	-598	-622	-599	-692	-723	-762	-768	-768	-721	-669	-644
Of which: NFPS interest	-717	-706	-746	-830	-914	-952	-960	-961	-905	-843	-814
Current transfers, net	88	63	122	-106	-155	-166	-179	-194	-210	-227	-245
Capital and financial account	**3,574**	**4,730**	**6,538**	**3,825**	**5,817**	**3,961**	**4,076**	**2,921**	**2,853**	**3,056**	**3,131**
Public sector, medium and long-term	77	1,502	2,168	1,214	1,308	362	109	6	-1,150	-43	301
Nonfinancial public sector 1/	-45	1,577	2,194	1,301	1,239	252	-28	-131	-1,264	-168	173
Other net flows	121	-76	-27	-87	69	110	137	137	113	124	128
Private sector, medium and long-term	4,511	3,662	6,733	4,557	4,621	5,363	5,883	5,691	5,961	6,293	5,747
Direct investment (net)	3,485	3,612	4,130	3,966	5,060	5,275	5,507	5,267	5,562	5,922	6,123
Of which: Reinvested earnings											
Portfolio investment	455	555	1,120	473	-786	-861	-941	-1,031	-1,121	-1,220	-2,150
Loans	571	-505	1,483	118	347	950	1,318	1,455	1,520	1,590	1,774
Short-term flows	-1,507	233	-1,113	-1,075	-112	-1,764	-1,917	-2,776	-1,957	-3,194	-2,917
Public sector	-188	117	-64	23	-57	-57	-56	-55	-50	-49	-49
Private sector	-1,319	116	-1,049	-1,098	-56	-1,707	-1,861	-2,721	-1,907	-3,145	-2,867
Errors and omissions	640	72	1,414	-104	-2,110	0	0	0	0	0	0
Overall balance	36	402	1,222	-78	609	313	365	413	436	460	499
Financing	-36	-402	-1,222	78	-609	-313	-365	-413	-436	-460	-499
Net foreign assets of the BNP (- increase)	-36	-402	-1,222	78	-609	-313	-365	-413	-436	-460	-499
					(In percent of GDP)						
Current account	**-10.5**	**-9.8**	**-13.7**	**-7.3**	**-5.6**	**-6.2**	**-5.8**	**-3.6**	**-3.2**	**-3.2**	**-3.0**
Merchandise trade balance (including CFZ)	-24.7	-21.3	-22.0	-18.6	-15.9	-16.0	-15.5	-14.3	-14.2	-14.5	-14.6
Services, net	19.7	17.4	15.8	19.3	18.7	18.6	18.6	18.6	18.6	18.6	18.6
Income, net	-5.7	-6.0	-7.8	-7.7	-8.1	-8.5	-8.6	-7.6	-7.3	-7.0	-6.7
Capital and financial account	**8.9**	**10.5**	**13.3**	**7.3**	**10.5**	**6.7**	**6.4**	**4.2**	**3.8**	**3.8**	**3.6**
Direct investment, net	8.7	8.1	8.4	7.6	9.2	8.9	8.6	7.6	7.4	7.3	7.0
Portfolio flows, net	1.1	1.2	2.3	0.9	-1.4	-1.5	-1.5	-1.5	-1.5	-1.5	-2.5
Other investment, net	1.4	-1.1	3.0	0.2	0.6	1.6	2.1	2.1	2.0	2.0	2.0
Memorandum items:											
Gross external debt (percent of GDP)	**136.8**	**132.0**	**136.4**	**141.9**	**131.8**	**126.5**	**120.6**	**114.4**	**106.9**	**101.2**	**96.9**
External public debt 2/	29.5	30.5	33.9	35.3	35.7	33.3	30.4	27.5	23.5	21.2	19.6
Foreign liabilities of the private sector	107.3	101.5	102.5	106.6	96.2	93.2	90.2	86.8	83.4	80.0	77.3

Sources: Office of the Comptroller General; and IMF staff calculations.

1/ Includes disbursements to ACP.

2/ Includes the ACP.

Table 5. Panama: External Vulnerability Indicators
(In percent, unless otherwise specified)

	2012	2013	2014	2015	2016	Projection 2017	2018
Financial indicators							
Broad money (12-month percent change)	11.4	7.2	8.2	5.5	4.1	7.2	8.1
Private sector credit (12-month percent change)	14.7	13.3	10.2	11.6	8.3	6.6	6.9
Deposit rate (6-month; in percent) 1/	1.9	1.8	1.9	1.9	1.7	…	…
External indicators							
Merchandise exports (12-month percent change)	21.1	-2.2	-9.4	-24.4	-8.3	3.1	25.7
Merchandise imports (12-month percent change)	16.4	1.3	5.2	-17.3	-7.2	6.6	9.0
Current account balance (in percent of GDP)	-10.5	-9.8	-13.7	-7.3	-5.6	-6.2	-5.8
Capital and financial account balance (in percent of GDP)	8.9	10.5	13.3	7.3	10.5	6.7	6.4
Of which: direct investment	8.7	8.1	8.4	7.6	9.2	8.9	8.6
Non-Financial Public Sector external debt (in percent of GDP)	27.0	27.3	29.2	30.0	30.7	29.0	26.8
In percent of exports of goods and services 2/	65.4	69.8	82.1	90.4	99.2	93.3	84.2
External interest payments							
In percent of exports of goods and services 2/	4.3	4.0	4.3	4.8	5.4	5.2	4.7
External amortization payments							
In percent of exports of goods and services 2/	5.6	4.4	1.2	4.3	2.7	2.2	1.9
Gross international reserves at end of period							
In millions of U.S. dollars 3/	2,412	3,145	3,549	3,694	4,341	4,654	5,031
In months of imports of goods and services	1.5	1.9	2.5	2.6	2.9	2.8	2.8
In percent of broad money 4/	8	10	10	10	11	11	11
In percent of short-term external debt 5/	29	29	30	25	43	45	47
	(In millions of U.S. dollars)						
Memorandum items:							
Nominal GDP	39,955	44,856	49,166	52,132	55,188	59,139	63,905
Exports of goods and services 2/	16,487	17,519	17,484	17,310	17,070	18,413	20,360
Imports of goods and services 2/	18,484	19,276	19,761	17,020	16,741	18,026	19,708

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 net exports of 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.

Table 6. Panama: Summary Accounts of the Banking System 1/

	2011	2012	2013	2014	2015	2016
Net foreign assets	**7,269**	**5,946**	**5,928**	**6,074**	**5,021**	**3,974**
Net domestic assets	**19,198**	**23,674**	**26,493**	**28,558**	**31,710**	**34,493**
Public sector (net credit)	-3,580	-3,308	-5,128	-5,938	-6,918	-7,772
Central government	-397	672	-448	-854	-1,112	-1,209
Rest of the public sector	-3,182	-3,980	-4,680	-5,085	-5,806	-6,562
Credit to the private sector 2/	31,667	36,315	41,144	45,325	50,584	54,781
Private capital and surplus	-6,931	-6,856	-7,128	-8,113	-8,872	-9,597
Other items (net)	-1,959	-2,477	-2,396	-2,717	-3,084	-2,918
Domestic liabilities to private sector	**27,087**	**30,176**	**32,352**	**35,005**	**36,937**	**38,468**
Total deposits	**26,666**	**29,501**	**32,116**	**34,719**	**36,616**	**38,264**
Demand deposits	6,227	7,067	7,695	8,213	8,114	8,148
Time deposits	13,864	15,174	16,485	17,681	19,135	20,493
Savings deposits	6,574	7,260	7,936	8,824	9,367	9,622
Bonds	422	**674**	**236**	**287**	**321**	**204**
			(percent change)			
Net foreign assets	**-14.8**	**-18.2**	**-0.3**	**2.5**	**-17.3**	**-20.9**
Net domestic assets	**17.5**	**23.3**	**11.9**	**7.8**	**11.0**	**8.8**
Credit to the private sector	16.5	14.7	13.3	10.2	11.6	8.3
Broad Money 3/	**13.7**	**9.5**	**8.0**	**10.7**	**8.3**	**4.9**
			(in percent of GDP)			
Onshore banks						
Credit	**127.1**	**125.5**	**121.6**	**123.9**	**129.6**	**129.7**
Credit to the domestic private sector	92.1	90.9	91.7	92.2	97.0	99.3
Credit to non-residents	35.0	34.6	29.8	31.7	32.6	30.4
Deposits	**136.9**	**128.9**	**124.1**	**125.3**	**128.0**	**126.9**
Domestic private sector deposits	77.6	73.8	71.6	70.6	70.2	69.3
Government deposits	13.0	12.9	14.5	15.7	16.4	16.5
Of which, central government	3.3	2.9	3.5	4.8	4.7	4.7
Non-resident deposits	46.4	42.2	38.0	39.0	41.3	41.1
Offshore banks						
Credit	29.4	24.2	24.1	21.5	21.0	18.8
Deposits	24.2	23.7	23.7	22.6	24.0	21.9
			(Annual percent)			
Interest rates						
U.S. Federal Funds rate	0.125	0.125	0.125	0.125	0.375	0.396
Average commercial lending rate 1 yr	6.5	7.4	7.0	7.4	7.5	7.2
Average consumer/personal lending rate 1 yr	11.8	11.4	9.3	9.5	9.6	9.5
Average industrial lending rate 1 yr	5.4	5.4	5.8	5.8	6.3	7.0
Average savings deposit rate 1 yr	2.7	2.7	2.7	2.9	2.9	2.9
Time deposit rate	1.0	0.9	1.0	1.0	0.9	0.9
Average reference mortgage rate	6.6	6.3	6.1	5.9	5.6	5.5

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

1/ Domestic banking system only (comprises general license banks; does not include offshore banks), unless otherwise specified. Nonresident deposits, credit, and investement are reported in the net foreign assets.

2/ Includes investments of the Banco Nacional.

3/ Broad money consists of onshore bank deposits only; estimates of U.S. currency in circulation are not available.

Table 7. Panama: Financial Soundness Indicators 1/

(In percent, end-of-period)

	2012	2013	2014	2015				2016			
	Dec.	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
Asset quality											
Nonperforming loans as percent of total loans											
Banking system	1.3	1.1	1.3	1.1	1.1	1.2	1.2	1.5	1.3	1.3	1.4
Domestic banks	1.3	1.0	1.5	1.5	1.3	1.5	1.5	1.7	1.7	1.6	1.5
Foreign banks	1.3	1.3	1.2	0.9	1.0	1.1	1.0	1.4	0.9	1.1	1.3
Ratio of provisions to nonperforming loans											
Banking system	178.2	171.2	90.9	97.5	89.1	91.8	80.8	71.4	85.9	71.1	80.6
Domestic banks 2/	183.2	155.3	99.5	94.7	91.9	83.2	78.0	73.9	73.0	63.9	72.8
Foreign banks	160.2	174.4	73.3	90.2	72.4	86.0	72.1	61.0	86.2	71.8	83.2
Profitability											
Net income on average assets											
Banking system	1.7	1.4	1.5	1.5	1.4	1.5	1.4	1.3	1.3	1.3	1.3
Domestic banks 2/	1.6	1.4	1.2	1.2	1.2	1.1	1.2	1.0	1.1	1.2	1.1
Foreign banks	1.8	1.4	1.7	1.7	1.6	1.7	1.6	1.4	1.4	1.4	1.3
Liquidity											
Ratio of liquid assets to total assets											
Banking system	16.9	17.7	19.5	19.8	18.0	17.1	17.0	16.6	17.0	15.4	16.7
Domestic banks 2/	16.1	16.8	18.6	19.5	19.1	19.0	18.8	19.8	18.5	18.0	17.7
Foreign banks	15.8	17.6	20.0	19.7	18.3	17.4	18.0	16.5	16.8	15.6	17.4
Ratio of liquid assets plus marketable securities to total deposits 3/											
Banking system	34.4	35.3	37.7	37.0	37.0	36.1	35.2	34.3	35.9	34.4	33.4
Domestic banks	31.9	31.8	31.0	34.4	34.0	33.6	33.2	31.8	32.4	33.1	32.7
Foreign banks	37.1	39.5	41.4	40.3	40.7	39.1	38.8	37.5	38.3	36.5	35.9
Capital adequacy ratios											
Ratio of capital to risk-weighted assets											
Banking system	15.7	14.8	14.7	15.0	14.9	14.9	14.8	14.9	14.9	15.4	15.0
Domestic banks 2/	16.9	15.9	15.8	16.0	15.8	15.6	15.4	15.3	15.0	15.9	15.7
Foreign banks	14.7	13.7	13.7	14.1	14.1	14.3	14.2	14.5	14.7	14.8	14.3
Ratio of capital to total assets											
Banking system	10.6	10.0	10.1	10.1	10.1	10.1	10.1	10.4	10.5	10.9	10.6
Ownership											
Foreign banks' share of domestic banking system assets	51.7	49.1	49.9	49.1	49.8	50.4	49.7	48.4	47.6	47.4	47.5

Sources: Superintendency of Banks; Financial Soundness Indicators (FSI) Database; and IMF staff calculations.

1/ National banking system only, comprises general license banks; does not include offshore banks.
2/ For Panama, average of domestic private banks and state-owned banks.
3/ For Panama, liquid assets, as defined in Article 75 of the 2008 Banking Law, also include marketable short-term securities.

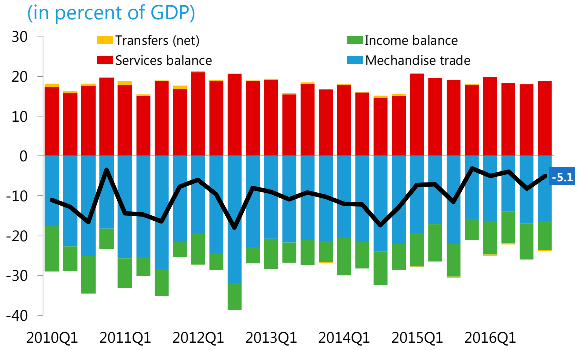
Annex I. External Stability Assessment

Panama's external position remains moderately weaker than suggested by fundamentals, but is on track to return to its norm over the medium-term. The current account deficit continues to benefit from stable financing, predominately from FDI.

Panama's external current account deficit continued to moderate in 2016 and is expected to decline further over the medium-term (Figure A1). In 2016, the current account deficit declined to 5.6 percent of GDP, down from a recent peak of 13.7 percent in 2014. While the decline in global commodity prices contributed, the improvement has also been associated with a broader decline in imports as several large-scale construction projects wound down (most importantly the expansion of the Panama Canal was completed in 2016). At the same time, Panama's goods exports continued to lose competiveness on global markets, dropping to 4.3 percent of GDP in 2016 after averaging almost 9 percent of GDP over the decade prior. The loss of competitiveness of the Colon Free Zone contributed (about 1.5 percentage points) as the CFZ has grappled with economic challenges in its main export markets (e.g. Venezuela) and as its exports have been affected by Panama's ongoing trade dispute with Colombia. However, the decline has been widespread across all goods exports. Panama's service exports, in contrast, have remained stable reaching 26.5 percent of GDP in 2016, consistent with the average level experienced over the prior decade.

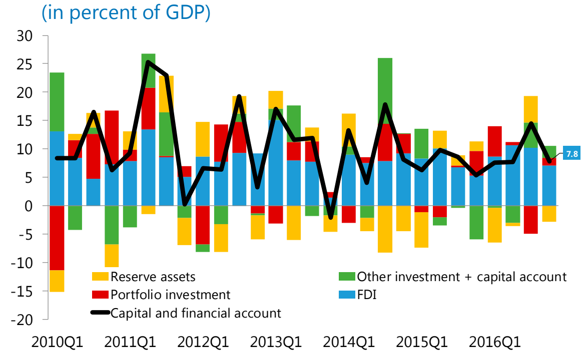
Panama: Developments in the Balance of Payments

Panama: Current account
(in percent of GDP)



Source: INEC.

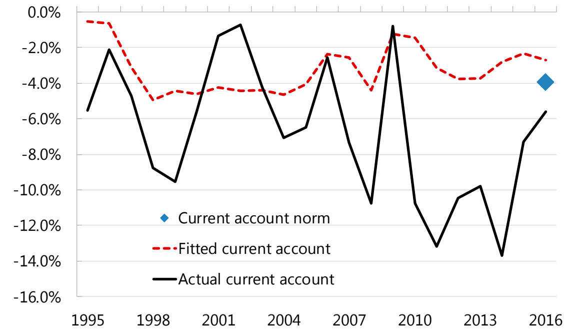
Capital and Financial Accounts
(in percent of GDP)



Source: INEC.

Panama's external sector position remains moderately weaker than warranted by fundamentals, but the current account balance is expected to return to its norm over the medium-term. Since the mid-2000s, Panama's current account deficit has been consistently larger than the value explained by fundamentals and desirable policies according to the EBA-lite methodology, with the gap driven by the residual rather than deviations in policy from desired policy. The widening of Panama's current account deficit over this time period was primarily driven by temporarily high investment, mainly linked to the expansion of the Panama Canal, while both the EBA and ES methodologies fail to capture the impact on the current account of temporarily high investment. Over the medium-term, this investment will raise both productive capacity and exports and, complemented with a new source of exports from the new mine, facilitate its own correction in the current account. Indeed, the current account deficit has begun to correct with the completion of the expansion project in 2016 and the winding down of related imports and now exceeds its norm by only 1.7 percent of GDP. The gap continues to be explained entirely by the residual, which is estimated at 2.9 percent of GDP, while Panama maintains a positive policy gap. The positive policy gap is driven primarily by a more-expansionary-than-desirable fiscal policy of the rest of the world, without which Panama would be experiencing a marginally larger current account deficit.

Panama: Current Account Balance EBA-Lite Approach
(in percent of GDP)



Sources: INEC; IMF Staff calculations.

Panama: EBA-Lite Current Account Panel Regressions

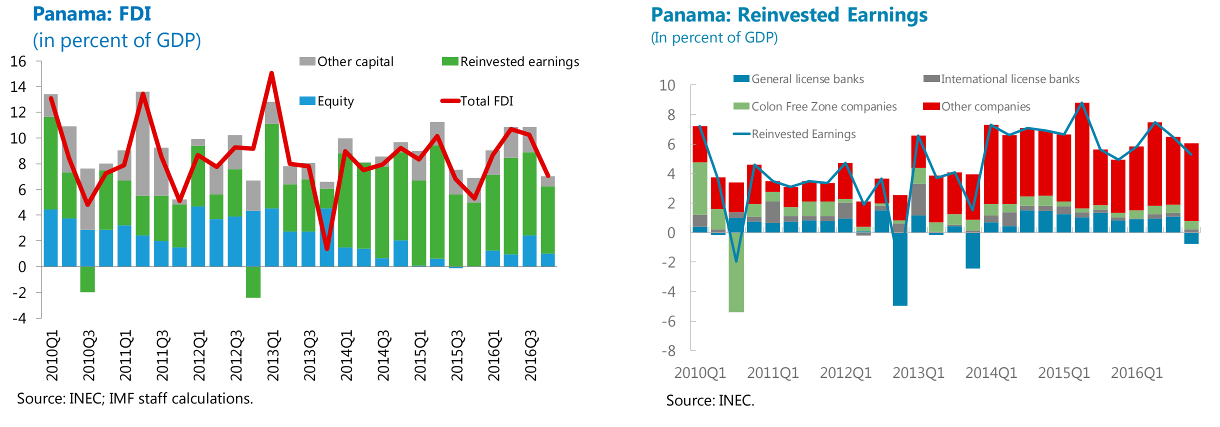
	Percent of GDP			Percent of GDP	
(a)	Actual current account	-5.3%	(e)	Fitted current account	-2.7%
(b)	Current account norm = (e) - (g)	-3.9%	(f)	Residual (a) - (e)	-2.7%
(c)	**Current account gap = (a)-(b)**	**-1.4%**	(g)	Policy gap	1.2%
(d)	Real exchange rate elasticity	-20.0%			
	Real exchange rate gap = (c)/(d)	**7.1%**			
	Real exchange rate gap (ES Approach)	**-11.8%**			

Source: IMF staff calculations.

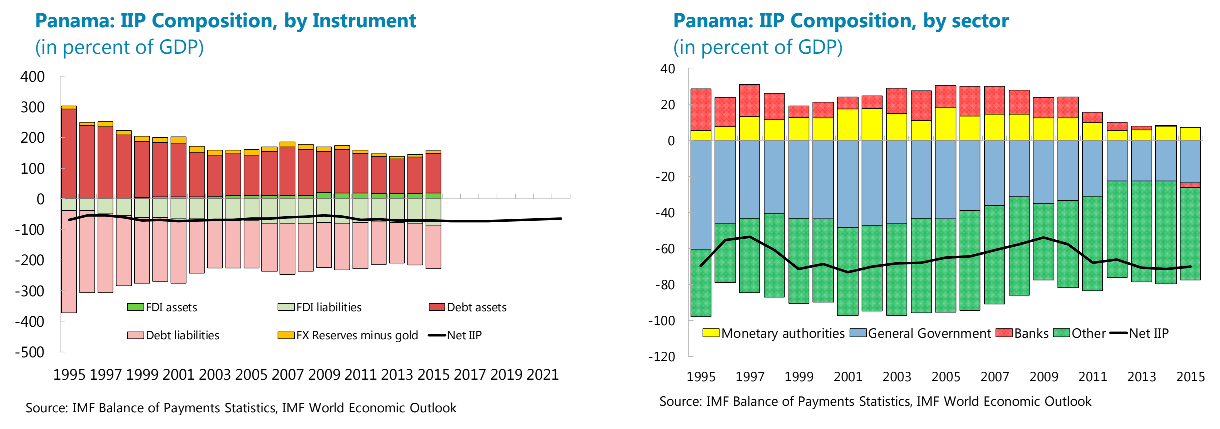
The financing structure of the current account deficit has been supportive of external stability. The current account deficit has traditionally been predominately financed by FDI inflows. These inflows remained robust in 2016 (at 9.2 percent of GDP). Since 2014, FDI has been primarily comprised of reinvested earnings of large multinational corporations operating in Panama and thus the stability of these inflows depends on continued profitability of these firms. With about a quarter of FDI originating in the United States, the new U.S. administration's proposed changes to U.S. corporate tax rules may present a risk to these inflows if they encourage firms to repatriate profits to the U.S. and may also lower FDI received from other countries. The banking sector and the Colon Free Zone, by contrast, have accounted for a much smaller share of reinvested earnings. Portfolio inflows have typically financed a smaller share of Panama's current account deficit and have remained broadly stable over time.

Panama's external debt liabilities have been falling rapidly over time. External debt liabilities reached an estimated 135 percent of GDP in 2015, down from 332 percent in 1995. FDI now comprises over 50 percent of Panama's external liabilities (up from about 11 percent in 1995), helping to mitigate Panama's external vulnerabilities. The external debt profile presents no sustainability concerns, with the external debt-to-GDP ratio set to decline into the medium-term, and with a low share of short-term debt.

Panama: Composition of Foreign Direct Investment



Panama: Net International Investment Position



The strength of the U.S. dollar has put appreciation pressure on Panama's nominal effective exchange rate. After appreciating strongly over 2014–2015, Panama's nominal and real effective exchange rates depreciated over much of 2016 before coming under renewed appreciation pressure in the last quarter of the year. Given Panama's dollarization, these developments closely mirrored developments in the U.S. dollar. On balance, Panama's nominal effective exchange rate appreciated by 1 percent from end-2015 to end-2016, while the real effective exchange rate appreciated by 0.8 percent.[1] Looking ahead, pressures for nominal effective appreciation could persist into 2017 if relatively stronger growth in the U.S. and higher U.S. interest rates maintain the recent strength in the U.S. dollar.

Based on the various EBA-lite approaches, the degree of misalignment in Panama's real effective exchange rate is judged to be in the range of -11.8 percent to 7.1 percent. The upper end of the range is consistent with estimates from the EBA-lite current account approach, assuming

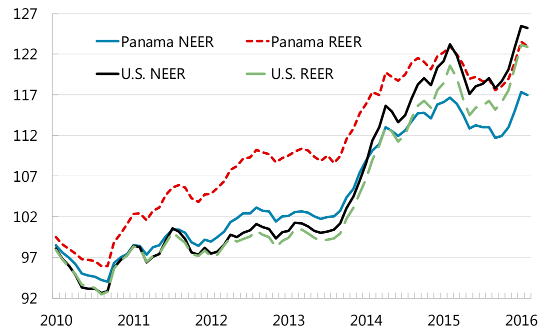
[1] Excluding Venezuela. Including Venezuela, Panama's nominal effective exchange rate appreciated by 5.8 percent, while the real effective exchange rate depreciated by 7 percent.

an exchange rate elasticity of 20 percent, while the lower-end of the range is consistent with estimates from the EBA-lite external sustainability approach. Estimates from the external sustainability approach assume that Panama's net international investment position (IIP) is stabilized at its estimated 2016 level of 71.8 percent of GDP. This implies an IIP-stabilizing current account deficit of 5.4 percent of GDP, well above the average of projected current account deficits (4.2 percent of GDP) over 2017–2022. Reducing Panama's net IIP to 65 percent of GDP, in line with the average level since 1995, would imply an IIP-stabilizing current account deficit of 4.9 percent of GDP, reducing the estimated under-valuation to about 9 percent. Concern over Panama's external sustainability is also mitigated by the relative resilience of Panama's exports to the appreciation observed over the past few years. However, exports declined as a share of GDP in 2016 and further appreciation would put pressure on Panama's external competitiveness and affect Panama's price sensitive service exports.

Panama: Exchange Rate Developments

Panama: Nominal and Real Effective Exchange Rates

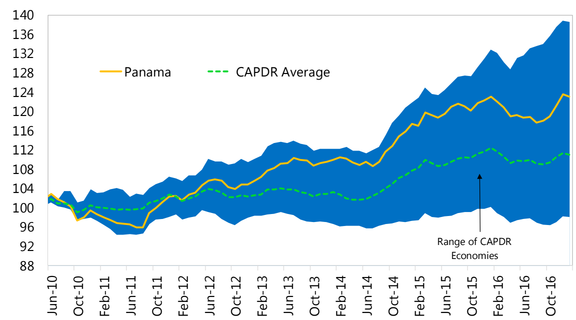
(Index: 2010=100; +appreciation)



Sources: INS and Fund staff calculations. Panama's NEER and REER exclude Venezuela.

Panama: Real Effective Exchange Rates

(Index: 2010=100; + appreciation)



Source: INS and Fund staff calculations. Panama's REER excludes Venezuela.

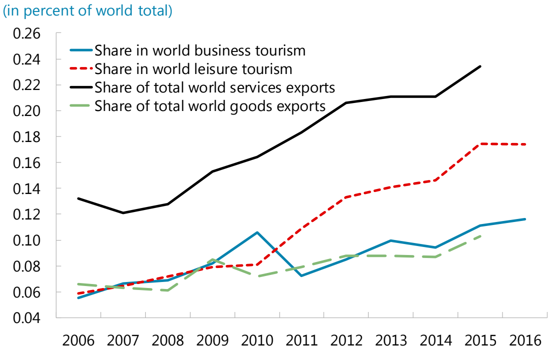
The assessment of Panama's competitiveness based on movements in its real effective exchange rate is hampered by the use of bilateral goods trade to determine the relative weights of Panama's trading partners in its real effective exchange rate. As with all countries, Panama's real effective exchange rate is calculated based on weights reflecting the relative importance of its trading partners in Panama's exports of goods. However, Panama exports very little goods, with services accounting for almost 90 percent of exports outside of the CFZ. If the destination countries of Panama's service exports differ significantly from that of its goods exports, the real effective exchange rate may not accurately capture developments in Panama's competitiveness compared to its trading partners.

While no bilateral trade data on services exists to assess the importance of the calculation methodology, the continued strength of Panama's service exports, even while its goods exports have been declining, suggests that while Panama may have lost some competitiveness in its goods exports, that its service exports remain competitive. Other indicators are also consistent with diverging developments in the competitiveness of Panama's goods and services exports. While Panama's goods exports have remained relatively stable as a share of world goods exports, its exports of tourism services, which account for about 30 percent of its service exports, have gained market share on a global basis and relative to LAC competitors. However, Panama's market share relative to CAPDR competitors has levelled off more recently, suggesting that the appreciation of the real effective exchange rate may be starting to have an impact on Panama's tourism competitiveness. The expansion of the Canal and the Government's plans to renew historical districts are expected to increase the attractiveness of Panama's tourism product and may help to offset the negative impact of appreciation on the tourism sector's competitiveness (see also Selected Issues Paper I). The Panama Canal expansion is also expected to have significantly improved Panama's competitiveness in exports of transportation services, which account for over 20 percent of service exports, 2/3 of which is driven by the canal. The canal expansion, combined with Panama's existing competitive advantage in logistics relative to regional peers, should facilitate continued expansion of Panama's transportation services, building on the recent gains Panama has made in improving its connectivity relative to the world's largest ports.[2]

Panama: Selected Indicators of Competitiveness

Panama has gained market share in services, particularly tourism services…

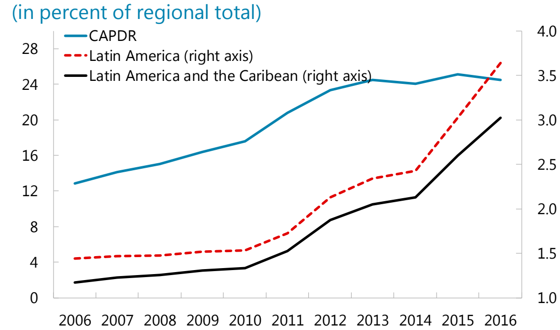
Panama: Selected Competitiveness Indicators
(in percent of world total)



Sources: World travel & tourism council, UNCTADstat and Fund staff calculations.

…but Panama's share of CAPDR tourism has stabilized.

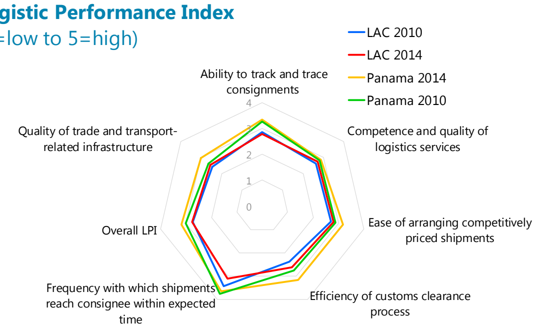
Panama: Market Share in Tourism 1/
(in percent of regional total)



Sources: World Travel and Tourism Council (WTCC) and Fund staff calculations.
1/ Tourism includes leisure and business tourism.

Panama has a competitive advantage over regional peers in logistics services…

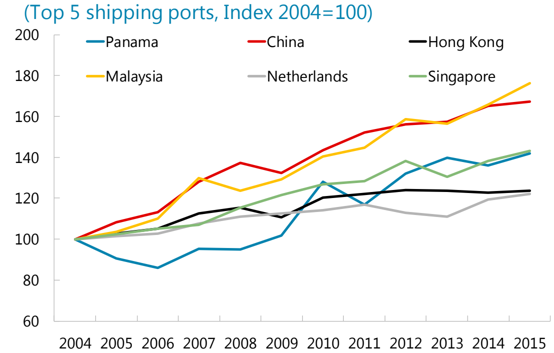
Logistic Performance Index
(1=low to 5=high)



Source: World Bank.

…and has been improving its connectivity relative to the world's most important ports.

Liner Shipping Conectivity Index
(Top 5 shipping ports, Index 2004=100)



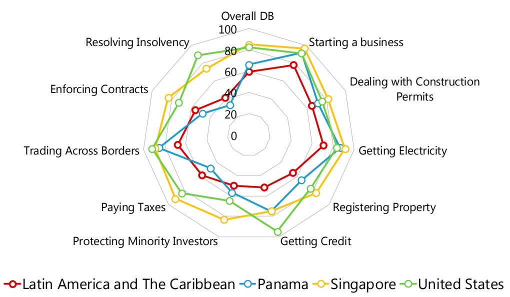
Source: World Bank.

[2] Panama's relative connectivity remains well below the world's largest global ports, but Panama has made progress to strengthen its connectivity,

Survey-based competitiveness indicators continue to suggest that Panama is among the most competitive economies in Latin America (Figure A2). Amongst LAC countries, Panama ranks second, after Chile, in the World Economic Forum's 2016–17 Global Competitiveness Report. Panama increased its global ranking by 8 positions moving to 42nd position, suggesting that Panama has continued to make inroads in strengthening its global competitiveness. Panama strengths remain on financial market development, the macroeconomic environment, infrastructure and efficiency, particularly when compared to LAC comparators. In contrast, improvements in education and training, labor market efficiency and institutions remain critical to further strengthening Panama's competitiveness. Results from the World Bank's Doing Business rankings for 2017 further suggest that strengthening tax discipline and insolvency regimes will be important to improve the business environment. Consistent with the WEF rankings, Panama performs comparatively well on in the Doing Business rankings on access to credit, starting a business and trading across borders.

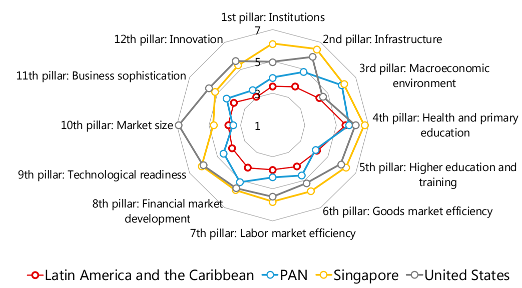
Panama: Survey-based Competitiveness Indicators

World Bank Doing Business Index 2017
(Index, from 0 to 100, where 0: lowest and 100: best)



Source: World Economic Forum and Fund staff calculations.

Global Competitiveness Index 2016-2017
(Index, from 1 to 7, where 1: worst and 7: best)



Source: World Economic Forum and Fund staff calculations.

International reserves appear low by standard reserve adequacy metrics, although these may not be fully appropriate for Panama's economy. Panama is a fully dollarized economy without a central bank and official reporting of reserves is close to the net foreign assets of the main public bank (Banco Nacional de Panama). Net international reserves by this measure are below standard reserve adequacy metrics as well as the IMF's risk-based metric for emerging markets. Although the government has access to other U.S. dollar assets such as the sovereign wealth fund and deposits held in domestic banks, it is not clear how quickly these could be utilized to address a systemic liquidity shortage. In the absence of a lender of last resort, the authorities need to take steps to build policy buffers and lessen vulnerabilities. Establishing a systemic liquidity facility for banks and developing a contingency plan to coordinate the response to a large unexpected shock to the financial system will be critical in this regard.

Panama: Reserve Adequacy Metrics

Metric	Benchmark coverage	Actual NIR coverage 2014	2015	2016
Months of imports	3 months	2.5	2.6	2.9
Broad Money	20%	10.1	10.0	11.3
Short-term debt	100 percent	29.9	24.8	43.2
IMF reserve adequacy metric 1/	100-150 percent	39.6	36.1	50.1
Gross external debt, billions of USD		49.1	54.4	56.8
Additional reserves needed to reach IMF reserve adequacy metric of 100 percent, billions of USD		5.4	6.5	4.3

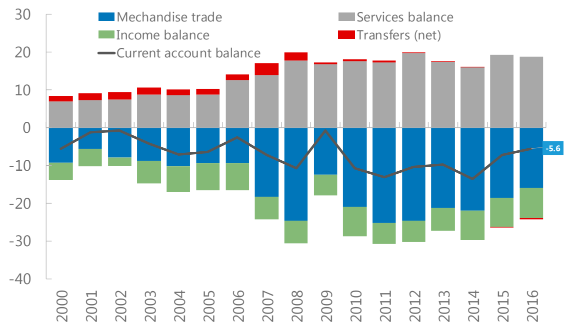
Sources: INEC and IMF staff calculations.

1/ Emerging market metric for fixed exchange rate countries: net international reserves divided by the sum of 30% of short-term debt (remaining maturity basis), 10% of broad money; 20% of IIP MLT portfolio liabilities and 10% of exports.

Figure 1. Panama: External Sector Developments

The current account deficit has continued to moderate…

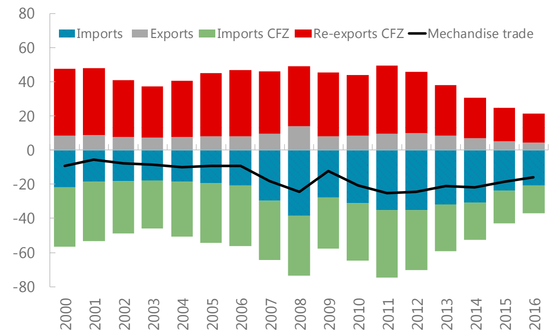
Panama: Current account
(in percent of GDP)



Source: INEC.

…as a decline in imports has more than offset a decline in merchandise exports.

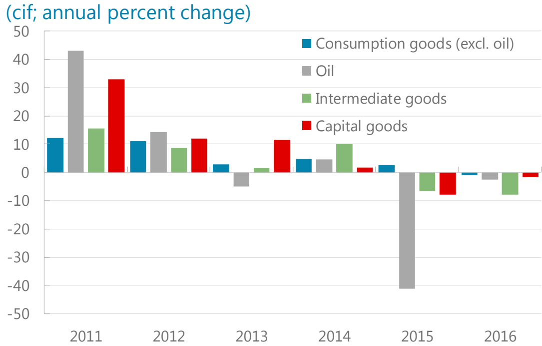
Panama: Merchandise Trade
(in percent of GDP)



Source: INEC.

The decline in imports has been widespread.

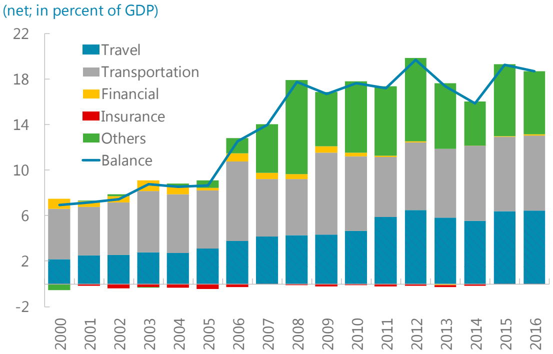
Panama: Import Composition
(cif; annual percent change)



Source: INEC.

On balance, trade in services has remained steady…

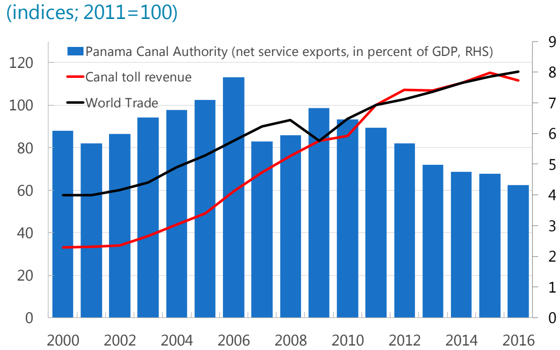
Panama: Trade in Services
(net; in percent of GDP)



Source: INEC.

…although exports of transportation services, particularly toll revenue from the Panama Canal, have been affected by the slowdown in world trade.

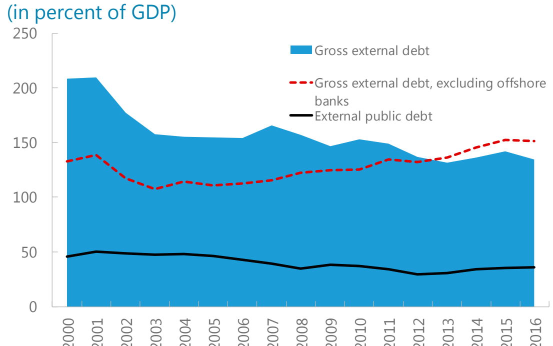
Panama: Panama Canal Toll Revenue and World Trade
(indices; 2011=100)



Sources: IMF World Economic Outlook, Autoridad del Canal de Panamá.

Panama's external debt remains on a downward trajectory.

Panama: External Debt
(in percent of GDP)

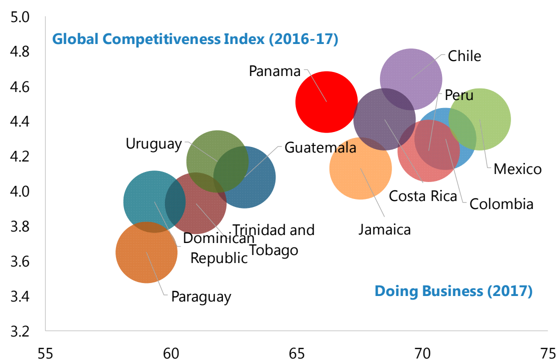


Sources: National authorities; Fund staff calculations.

Figure 2. Panama: Structural and Competitiveness Indicators

Panama remains among the most competitive LAC countries according to the World Economic Forum, but has lost ground relative to its regional peers in the World Bank Doing Business indicators.

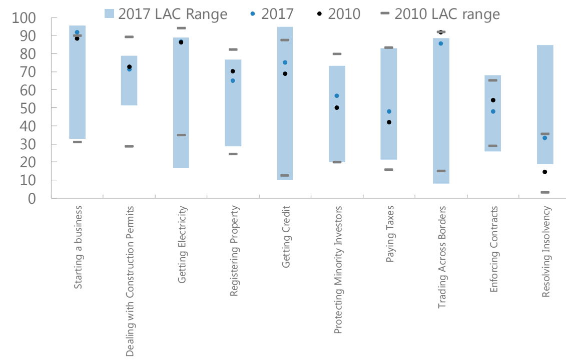
Panama: Competitiveness Indicators



Panama outperforms LAC on starting a business and trading across borders, while strengthening tax discipline and insolvency are priorities to strengthen the business environment.

Panama: Doing Business Index

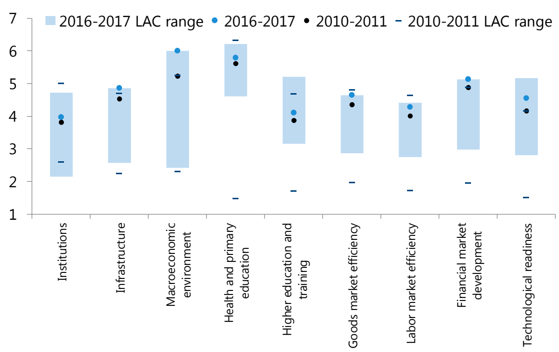
(Index, from 0 to 100, where 0: lowest and 100: best)



Panama leads the LAC region across most categories in the global competitiveness index, but lags the region on education and training.

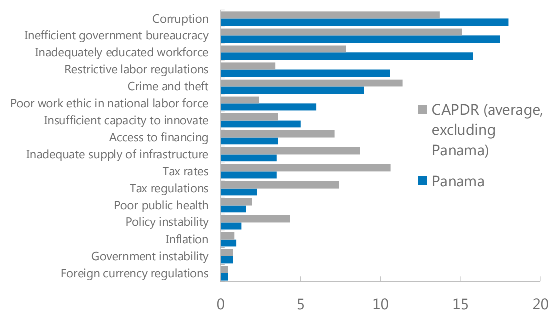
Panama: Global competitiveness Index

(Index, from 1 to 7, where 1: worst and 7: best)



Addressing corruption, improving government efficiency and strengthening education are top priorities to improve the business environment.

Panama: Most Problematic Factors for Doing Business; 2016-17



Source: Global Competitiveness Report, World Economic Forum. From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Annex II. Debt Sustainability Analysis (DSA)

Public debt is expected to remain sustainable, decreasing from close to 39 percent of GDP in 2016 to about 32½ percent of GDP by 2022. The favorable growth outlook and the primary fiscal surpluses due to the projected medium-term consolidation in line with the SFRL targets are key factors behind the downward trajectory of the public debt-to-GDP ratio. The public gross financing needs remain manageable, albeit rising over the projection horizon as a result of an assumed gradual increase in the share of short-term debt.

Macroeconomic assumptions: Real GDP growth is expected to increase slightly from 4.9 percent in 2016 to 5.1 percent in 2017 supported by the expanded Canal and a large mining project. The extensive pipeline of public and private investment projects is projected to keep medium-term growth at about 5½ percent. Inflation is expected to pick up to about 2 percent in 2017 with the projected further normalization of fuel prices and then return to the projected medium-term range of 2–2½ percent. With continued consolidation according to the fiscal rule targets, Panama is projected to start running primary fiscal surpluses in 2018, which will gradually increase from 0.1 percent of GDP in 2018 to 0.4 percent of GDP by the end of the projection horizon in 2022.

Baseline scenario: Public debt is projected to decline from close to 39 percent of GDP in 2016 to 32½ percent of GDP by the end of the projection horizon. The favorable automatic debt dynamics, with a negative interest rate/growth differential, is expected to contribute the bulk part of the reduction in public debt-to-GDP ratio, or about 5 percent of GDP from the projection reduction of 6¼ percent of GDP. With the projected series of primary surpluses, fiscal consolidation contributes an additional 1.1 percent of GDP in reducing the debt-to-GDP ratio. Overall gross external debt (public and private) is projected to continue to decline over the medium-term aided by the projected decline in the current account deficit and favorable automatic debt dynamics.

Alternative scenarios: The historical scenario implies a faster pace of reduction in the debt-to-GDP ratio relative to the baseline, due to its assumptions of a higher real GDP growth and larger primary fiscal surpluses rooted in Panama's strong performance in past years. As a result, the public debt-to-GDP ratio drops below 28 percent over the projection horizon. On the other hand, the constant primary balance scenario assumes that the fiscal consolidation mandated by the fiscal rule does not take place, resulting in a smaller decline of the public debt-to-GDP ratio relative to the baseline, which converges to 35½ percent over the projection horizon. Nonetheless, in both alternative scenarios, public debt-to-GDP follows a strictly downward trajectory. The external debt sustainability analysis indicated that the medium-term debt profile is resilient to a number of shocks including one-quarter standard deviation shocks applied to the real interest rate, economic growth, and the current account balance, with the external debt profile remaining on a downward path.

Figure 1. Panama: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(In percent of GDP unless otherwise indicated)

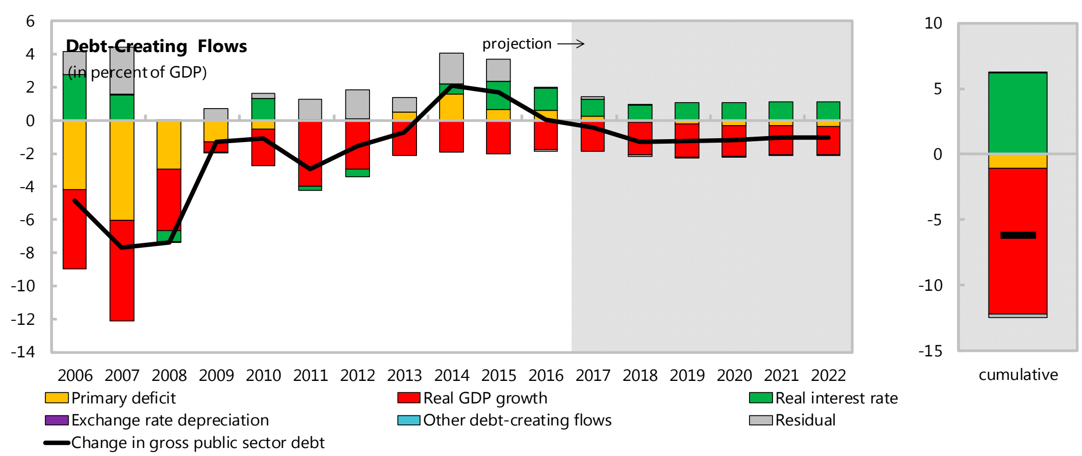
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	41.9	38.8	38.8	38.4	37.1	35.9	34.7	33.7	32.6
Public gross financing needs	2.8	3.6	2.9	3.2	3.3	5.0	6.8	7.0	8.4
Real GDP growth (in percent)	7.8	5.8	4.9	5.1	5.6	5.8	5.6	5.5	5.5
Inflation (GDP deflator, in percent)	4.9	0.2	0.9	2.0	2.3	2.5	2.4	2.3	2.3
Nominal GDP growth (in percent)	13.1	6.0	5.9	7.2	8.1	8.4	8.2	7.9	7.9
Effective interest rate (in percent) [4/]	6.3	5.1	4.6	4.8	5.0	5.7	5.8	5.9	5.9

As of December 30, 2016		
Sovereign Spreads		
EMBIG (bp) 3/		186
5Y CDS (bp)		127
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB	BBB
Fitch	BBB	BBB

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-2.8	1.7	0.1	-0.4	-1.3	-1.2	-1.2	-1.0	-1.0	-6.2	
Identified debt-creating flows	-4.0	0.4	0.2	-0.6	-1.2	-1.2	-1.1	-1.0	-1.0	-6.0	
Primary deficit	-1.4	0.7	0.6	0.3	-0.1	-0.2	-0.3	-0.3	-0.4	-1.1	-0.6
Primary (noninterest) revenue and gra	22.9	20.3	20.4	21.2	21.0	21.1	21.1	21.1	21.0	126.5	
Primary (noninterest) expenditure	21.5	21.0	21.0	21.5	20.9	20.9	20.8	20.8	20.6	125.4	
Automatic debt dynamics [5/]	-2.6	-0.3	-0.5	-0.9	-1.1	-0.9	-0.8	-0.7	-0.6	-4.9	
Interest rate/growth differential [6/]	-2.6	-0.3	-0.5	-0.9	-1.1	-0.9	-0.8	-0.7	-0.6	-4.9	
Of which: real interest rate	0.5	1.7	1.3	1.0	0.9	1.1	1.1	1.1	1.1	6.2	
Of which: real GDP growth	-3.1	-2.0	-1.8	-1.8	-2.0	-2.0	-1.9	-1.8	-1.7	-11.2	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GG: Net privatization proceeds (nega	0.0	0.0	0.0	0.0	0.0	0.0	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	
Please specify (2) (e.g., ESM and Euro	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.2	1.3	-0.1	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	



Source: IMF staff.

1/ Public sector is defined as non-financial public sector.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

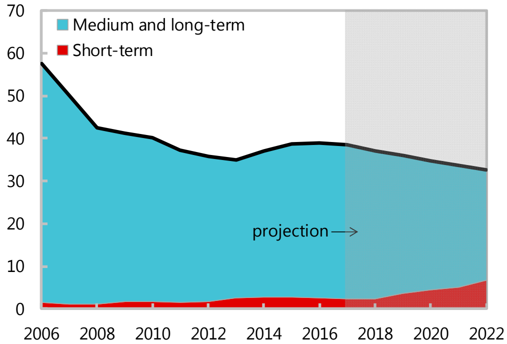
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 2. Panama: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

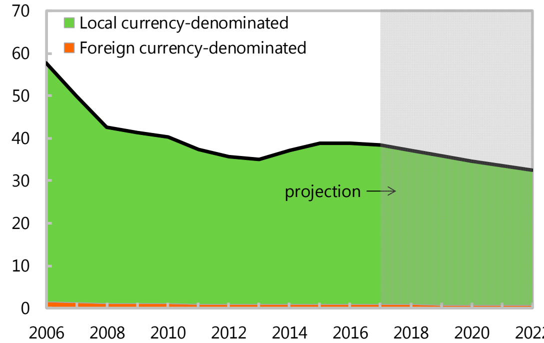
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

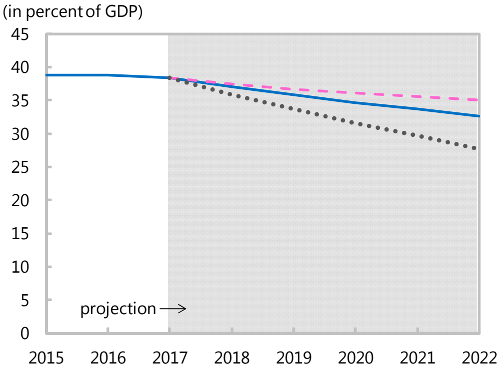


Alternative Scenarios

Baseline   Historical   Constant Primary Balance

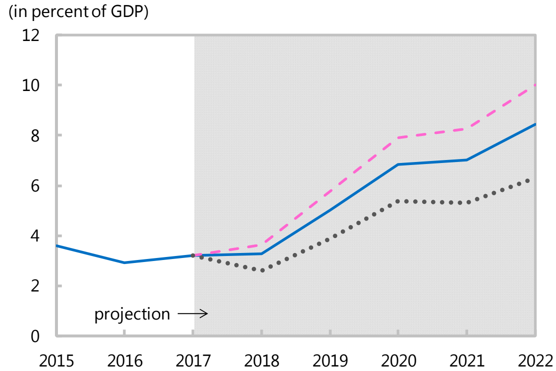
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	5.1	5.6	5.8	5.6	5.5	5.5
Inflation	2.0	2.3	2.5	2.4	2.3	2.3
Primary Balance	-0.3	0.1	0.2	0.3	0.3	0.4
Effective interest rate	4.8	5.0	5.7	5.8	5.9	5.9
Constant Primary Balance Scenario						
Real GDP growth	5.1	5.6	5.8	5.6	5.5	5.5
Inflation	2.0	2.3	2.5	2.4	2.3	2.3
Primary Balance	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	4.8	5.0	5.7	5.7	5.8	5.9
Combined Shock						
Real GDP growth	5.1	2.4	2.6	5.6	5.5	5.5
Inflation	2.0	1.5	1.7	2.4	2.3	2.3
Primary Balance	-0.3	-1.0	-1.5	0.3	0.3	0.4
Effective interest rate	4.8	5.0	5.8	6.0	6.3	6.5

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	5.1	7.2	7.2	7.2	7.2	7.2
Inflation	2.0	2.3	2.5	2.4	2.3	2.3
Primary Balance	-0.3	0.7	0.7	0.7	0.7	0.7
Effective interest rate	4.8	5.0	5.6	5.7	5.7	5.6
Contingent Liability Shock						
Real GDP growth	5.1	2.4	2.6	5.6	5.5	5.5
Inflation	2.0	1.5	1.7	2.4	2.3	2.3
Primary Balance	-0.3	-10.5	0.2	0.3	0.3	0.4
Effective interest rate	4.8	5.7	5.7	5.5	5.7	5.8
Contingent Liabilities of SOEs						
Real GDP growth	5.1	5.6	5.8	5.6	5.5	5.5
Inflation	2.0	2.3	2.5	2.4	2.3	2.3
Primary Balance	-0.3	-4.5	0.2	0.3	0.3	0.4
Effective interest rate	4.8	5.0	5.5	5.6	5.8	5.8

Source: IMF staff.

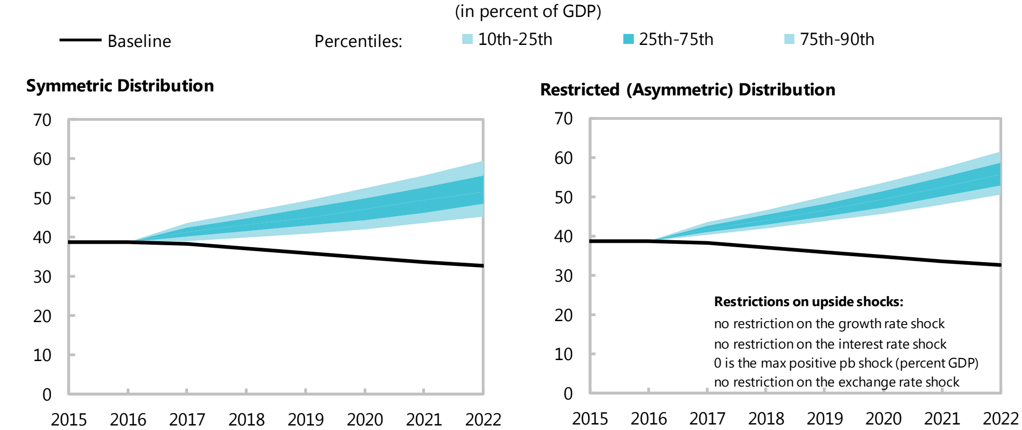
Figure 3. Panama: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

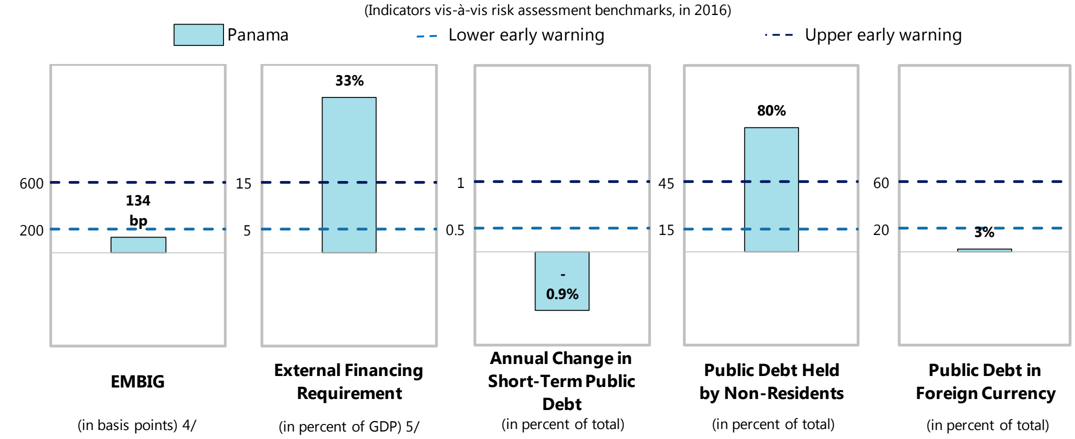
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 01-Oct-16 through 30-Dec-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

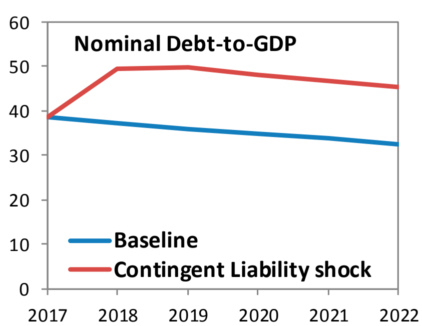
Box 1. Panama: Public DSA Stress Test

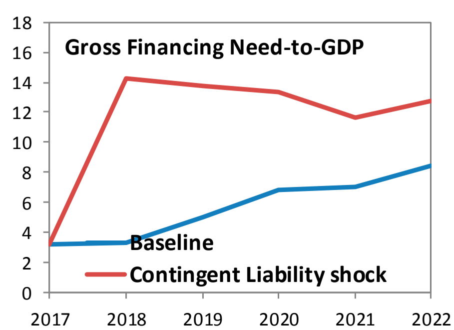
Three additional stress tests are examined in this section: financial contingent liability shock, combined GDP growth and financial conditions shock, and contingent liabilities of SOEs shock.

The financial contingent liability shock encompasses a near-term increase in non-interest public expenditure in the amount of 10 percent of the banking system's assets in 2018, which is accompanied by a one-standard deviation shock to real GDP growth in 2018–2019, and an interest rate increase by 25 basis points for each percent of GDP deterioration in the primary fiscal balance. Given the importance of Panama's banking system, such a shock leads to an increase of public debt to almost 50 percent of GDP in 2018–2019, which nonetheless follows a declining path thereafter, falling to 45.5 percent of GDP by 2022. Gross financing needs stabilize as a percent of GDP following a significant increase in the year of the financial liability shock.

Financial Contingent Liability Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	5.1%	2.4%	2.6%	5.6%	5.5%	5.5%
Inflation (GDP Deflator change)	2.0%	1.5%	1.7%	2.4%	2.3%	2.3%
Non-interest revenue-to-GDP ratio	21.2%	21.0%	21.1%	21.1%	21.1%	21.0%
Non-interest expenditure-to-GDP ratio	21.5%	31.5%	20.9%	20.8%	20.8%	20.6%
Primary Balance	-0.3%	-10.5%	0.2%	0.3%	0.3%	0.4%
Nominal Exchange Rate -- average (LCU/USD)	1.00	1.00	1.00	1.00	1.00	1.00
Nominal Exchange Rate -- end of period (LCU/USD)	1.00	1.00	1.00	1.00	1.00	1.00
Interest rate shock (bpts) compared to baseline	0	265	0	0	0	0

Source: Panama Authorities and Fund Staff Estimates





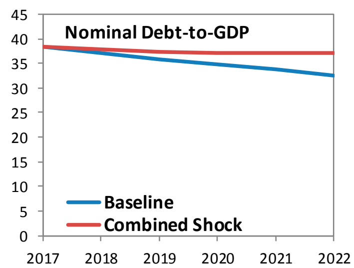
Source: Panama Authorities and Fund Staff Estimates

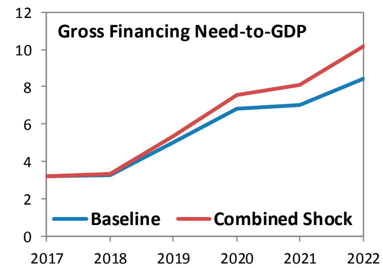
The combined real GDP growth and financial conditions medium-term shock assumes a drop in GDP growth by 2 percentage points each year over the period 2018–2022 and an increase in the interest rate of 400 basis points compared to the baseline scenario, which roughly corresponds to the deterioration of financing conditions during the crisis in 2009. The combined shock results in a slightly higher trajectory of public debt, which is still trending downwards, though at a lower speed, and drops to 37 percent of GDP over the medium term.

Box1. Panama: Public DSA Stress Test (Concluded)

Combined Real GDP and Financial Conditions Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	5.1%	3.6%	3.8%	3.6%	3.5%	3.5%
Inflation (GDP Deflator change)	2.0%	2.3%	2.5%	2.4%	2.3%	2.3%
Non-interest revenue-to-GDP ratio	21.2%	21.0%	21.1%	21.1%	21.1%	21.0%
Non-interest expenditure-to-GDP ratio	21.5%	20.9%	20.9%	20.8%	20.8%	20.6%
Primary Balance	-0.3%	0.1%	0.2%	0.3%	0.3%	0.4%
Nominal Exchange Rate -- average (LCU/USD)	1.00	1.00	1.00	1.00	1.00	1.00
Nominal Exchange Rate -- end of period (LCU/USD)	1.00	1.00	1.00	1.00	1.00	1.00
Interest rate shock (bpts) compared to baseline	0	400	400	400	400	400

Source: Panama Authorities and Fund Staff Estimates



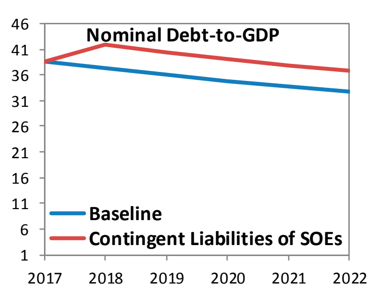


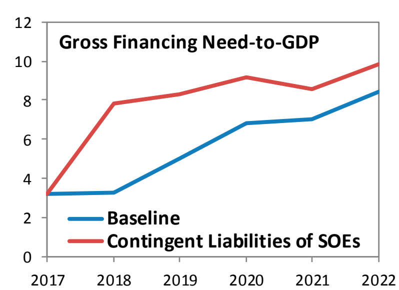
Source: Panama Authorities and Fund Staff Estimates

The contingent liability shock assumes that the government needs to cover at once the amount of all contingent liabilities of the public companies excluded from the NFPS and possible contingent liabilities that may arise from the newly-established liquidity facility at BNP. Such a shock leads to an increase in non-interest expenditure of about 4.6 percent of GDP in 2018 and, as before, a corresponding increase in financing costs of 25 basis points for each percent of GDP of additional primary deficit. Such a shock raises the level of debt, but leaves it on a clear downward path to about 37 percent of GDP in 2022.

Contingent Liabilities of SOEs	2017	2018	2019	2020	2021	2022
Real GDP growth	5.1%	5.6%	5.8%	5.6%	5.5%	5.5%
Inflation (GDP Deflator change)	2.0%	2.3%	2.5%	2.4%	2.3%	2.3%
Non-interest revenue-to-GDP ratio	21.2%	21.0%	21.1%	21.1%	21.1%	21.0%
Non-interest expenditure-to-GDP ratio	21.5%	25.4%	20.9%	20.8%	20.8%	20.6%
Primary Balance	-0.3%	-4.5%	0.2%	0.3%	0.3%	0.4%
Nominal Exchange Rate -- average (LCU/USD)	1.00	1.00	1.00	1.00	1.00	1.00
Nominal Exchange Rate -- end of period (LCU/USD)	1.00	1.00	1.00	1.00	1.00	1.00
Interest rate shock (bpts) compared to baseline	0	95	0	0	0	0

Source: Panama Authorities and Fund Staff Estimates





Source: Panama Authorities and Fund Staff Estimates

Figure 4. Panama: External Debt Sustainability Framework, 2011–2021 1/

(in percent of GDP, unless otherwise indicated)

	Actual 2011	2012	2013	2014	2015			Projections 2016	2017	2018	2019	2020	2021	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	106.9	99.1	97.0	99.8	104.3			**102.9**	**98.7**	**94.0**	**89.3**	**83.5**	**79.6**	**5.0**
2 Change in external debt	1.0	-7.9	-2.1	2.9	4.5			-1.4	-4.2	-4.7	-4.7	-5.8	-3.8	
3 Identified external debt-creating flows (4+8+9)	5.0	4.2	7.0	13.6	9.2			10.0	10.2	9.3	6.2	6.0	6.3	
4 Current account deficit, excluding interest payments	8.3	6.0	5.7	10.0	3.6			1.9	2.5	2.1	-0.1	-0.5	-0.5	
5 Deficit in balance of goods and services	-87.7	-87.5	-82.0	-75.0	-65.8			-60.4	-60.2	-61.0	-62.2	-63.0	-62.8	
6 Exports	39.8	41.3	39.1	34.4	33.2			31.6	31.4	32.0	33.2	33.7	33.4	
7 Imports	-47.9	-46.3	-43.0	-40.6	-32.6			-28.8	-28.8	-28.9	-28.9	-29.3	-29.3	
8 Net non-debt creating capital inflows (negative)	8.7	8.7	8.1	8.4	7.6			9.2	8.9	8.6	7.6	7.4	7.3	
9 Automatic debt dynamics 1/	-11.9	-10.5	-6.7	-4.8	-2.0			-1.1	-1.2	-1.4	-1.3	-0.9	-0.6	
10 Contribution from nominal interest rate	4.9	4.4	4.1	3.7	3.7			3.7	3.7	3.7	3.7	3.7	3.7	
11 Contribution from real GDP growth	-10.5	-8.5	-5.8	-5.4	-5.4			-4.8	-4.9	-5.1	-5.0	-4.6	-4.3	
12 Contribution from price and exchange rate changes 2/	-6.3	-6.4	-5.0	-3.1	-0.2			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-4.0	-12.1	-9.1	-10.7	-4.7			-11.4	-14.4	-14.0	-10.9	-11.8	-10.1	
External debt-to-exports ratio (in percent)	268.6	240.1	248.3	290.1	314.2			325.7	314.2	293.8	268.8	248.0	238.3	
Gross external financing need (in billions of US dollars) 4/	12267.0	12976.2	13568.2	17887.7	16440.9			18388.8	14101.7	14414.2	13555.0	15192.2	16049.4	
in percent of GDP	35.7	32.5	30.2	36.4	31.5	10-Year	10-Year	33.3	23.8	22.6	19.6	20.3	19.8	
Scenario with key variables at their historical averages 5/								**102.9**	**96.7**	**92.0**	**90.6**	**88.7**	**88.5**	**3.4**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	11.8	9.2	6.6	6.1	5.8	7.6	3.1	4.9	5.1	5.6	5.8	5.6	5.5	
GDP deflator in US dollars (change in percent)	6.3	6.4	5.3	3.4	0.2	4.4	2.4	0.9	2.0	2.3	2.5	2.4	2.3	
Nominal external interest rate (in percent)	5.5	4.8	4.7	4.2	3.9	5.7	1.4	3.7	3.8	4.0	4.3	4.5	4.8	
Growth of exports (US dollar terms, in percent)	26.5	20.5	6.3	-3.4	2.3	14.4	14.4	0.7	6.6	10.1	12.5	9.6	7.2	
Growth of imports (US dollar terms, in percent)	40.0	12.3	4.3	3.5	-14.9	15.4	24.7	-6.3	7.1	8.5	8.4	9.5	8.0	
Current account balance, excluding interest payments	-8.3	-6.0	-5.7	-10.0	-3.6	-3.1	5.3	-1.9	-2.5	-2.1	0.1	0.5	0.5	
Net non-debt creating capital inflows	-8.7	-8.7	-8.1	-8.4	-7.6	-8.6	2.3	-9.2	-8.9	-8.6	-7.6	-7.4	-7.3	

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.

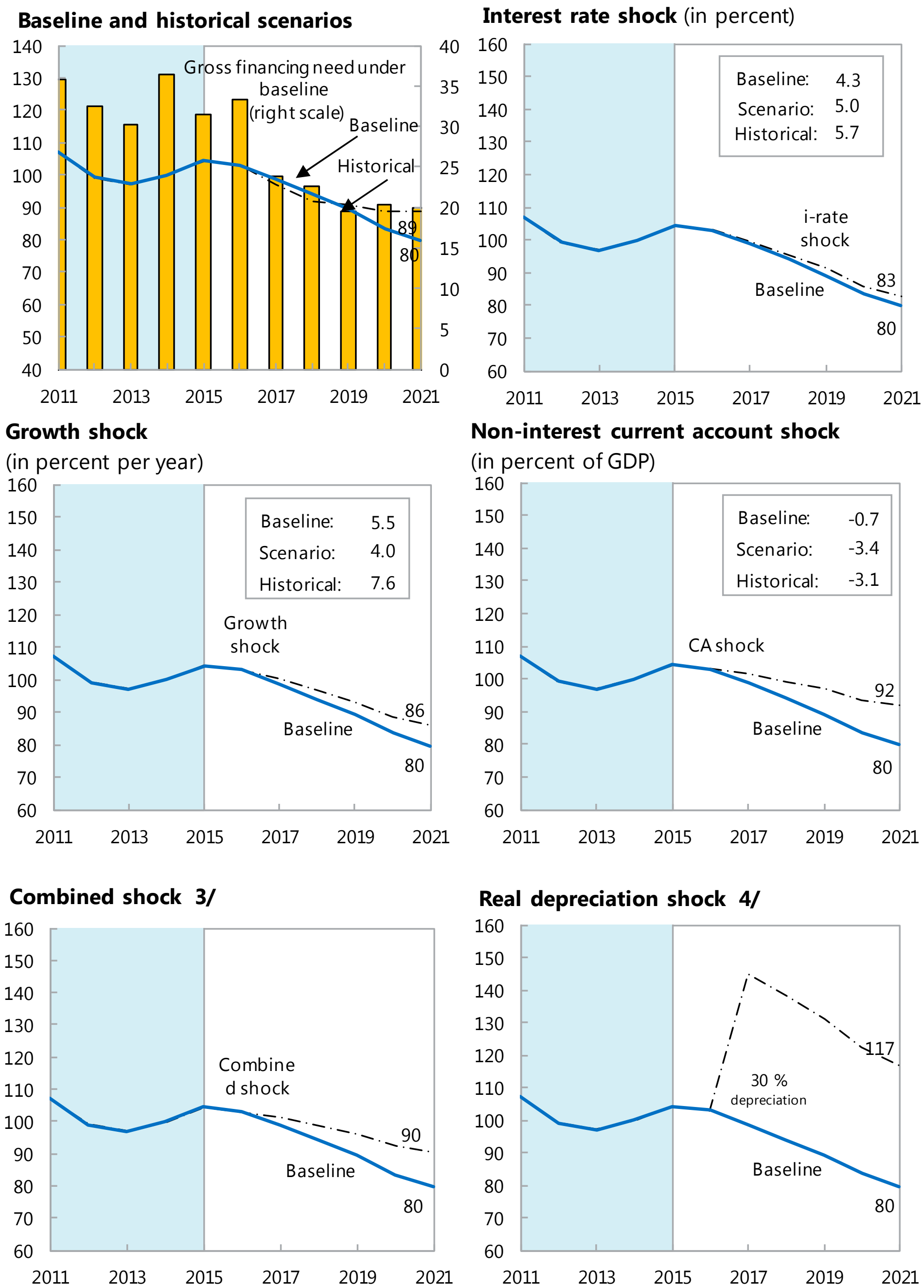
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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 5. Panama: External Debt Sustainability: Bound Tests 1/ 2/

(External debt 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 occurs in 2010.

Annex III. Implementation of Past IMF Policy Advice

The authorities' macroeconomic and financial policies over the last year have been broadly in line with past Fund advice. During the 2016 Article IV consultation, Directors stressed the importance of strengthening the AML/CFT framework in line with international standards and ensuring its effective implementation and welcomed the authorities' commitment to the automatic exchange of tax information, urging them to expand these agreements with other jurisdictions. Directors also underlined the need to continue strengthening the transparency and accountability of the fiscal framework and underscored the need to broaden the tax base, develop appropriate incentives for tax compliance, and refrain from tax amnesties. They emphasized the need to develop contingency plans to address systemic shocks and to ensure larger liquidity buffers, including through an alignment of the liquidity regulation with the Basel III framework and the establishment of a temporary liquidity facility for banks. Directors also encouraged the authorities to move forward with the envisaged measures to improve education quality, reduce skills shortages, and strengthen productivity.

Tax Transparency and Financial Integrity: The authorities ratified OECD's Multilateral Convention on Tax Matters, which expanded Panama's network of partner jurisdictions to over 100. They also ratified an agreement with the U.S. to implement FATCA, signed its first bilateral agreement for automatic exchange of tax information with Japan, and initiated a few others. The National Assembly adopted key legislation to improve tax transparency and the authorities are implementing measures to strengthen the tax administration's human, procedural, and IT capacities for effective exchange of tax information. The national AML/CFT risk assessment was finalized and a national AML/CFT strategy is under preparation. Supervisory capacity over AML/CFT risks has been ramped up and new ICT solutions are planned to further strengthen capacity. The authorities have begun to publish sanctions related to AML/CFT.

Fiscal Policy: The authorities prepared draft legislation to introduce a fiscal council to strengthen the transparency and accountability of the fiscal framework. Improvements in tax administration, the introduction of partial VAT withholding and an upgraded tax filing system resulted in higher tax revenues. The authorities refrained from tax amnesties, but have not reviewed tax incentives and exemptions to broaden the tax base.

Financial Sector Reforms: Prudential regulations have been further aligned with Basel III by introducing capital regulations for banking groups. New regulations are anticipated in 2017 to introduce capital charges for market and operational risk and to adopt the liquidity coverage ratio. Coordination across financial supervisors has been improved with respect to oversight of financial conglomerates, with joint supervision of financial conglomerates by the relevant supervisory authorities launched in 2017. Systemic risk oversight has been strengthened under SBP's leadership and efforts are underway to address data gaps on household balance sheets and property prices.

Inclusive Growth: The authorities initiated actions to establish a new technical institute that is seen by the private and public sectors as an important step to addressing skills shortages on the labor market. The authorities' policy actions remain focused on strengthening technical and language skills and improving programs for vocational education.

Annex IV. Risk Assessment Matrix 1/

Source of Risk	Relative Likelihood	Time Horizon	Expected Impact		Recommended Policy Response
External Risks					
Significant further strengthening of the US dollar and/or higher rates.	**High**	**Short -term**	**Medium**	A further strengthening of the U.S. dollar and/or a more rapid than expected increase in U.S. interest rates may trigger reductions in capital inflows/increases in capital outflows and difficulties in rolling over external financing including through a freeze of foreign credit lines. Tighter global financial conditions could lead to a rise in domestic rates, an increase in spreads and higher financing costs. Higher U.S. dollar would erode Panama's external competitiveness.	Deficit financing more tilted to domestic market. The fiscal deficits will need to be adjusted in order to avoid sharp increase in domestic rates and possible crowding out of private investment. Current account to adjust automatically through lower imports.
Reduced financial services by correspondent banks ("de-risking"	**High**	**Short- to medium-term**	**Medium**	Difficulties in accessing international finance and higher financing costs. Potential capital outflows.	Strengthen AML/CFT and improve financial transparency. Financial sector consolidation.
• Structurally weak growth in key advanced and emerging economies.	**High/Medium**	**Medium-term**	**High**	A 1 percentage point decline in the world trade to GDP ratio would have an immediate impact of Panamanian output with real GDP decreasing by about 0.8 percent after two quarters. The impact would be expected to occur directly through Panama canal activity and value-added activities surrounding the canal, including the Colon Zone re-exports. Slower canal activity may also indirectly affect the broader economy as lower canal-related income may lead to lower consumer spending and dampen government canal revenue.	Advance structural reforms to improve productivity and strengthen competitiveness. Current account to adjust automatically through lower imports.
• Significant China slowdown and its spillovers	**Low/Medium**	**Short- to medium-term**	**Medium**	Weaker demand from China would reduce exports, including through lower revenues from the Panama Canal.	Same as above.
• Significant slowdown in other large EMs/frontier economies	**Medium**	**Short-term**	**High**	Slower growth, weaker exports and lower Canal revenues. Staff's scenario implies that a sharp slowdown in EMs to the levels experienced after the Asian and the global financial crisis would lead to 1.8 pp lower growth, 0.5 percent of GDP higher fiscal deficit and 0.6 percent of GDP higher current account deficit.	Same as above.
Retreat from cross-border integration	**High**	**Short- to medium-term**	**High**	Retreat from cross-border integration and changes in the U.S. corporate tax regime could negatively affect trade and FDI inflows.	Advance structural reforms to improve productivity and strengthen competitiveness.
Domestic Risks					
Delays in strengthening AML/CFT or improving tax transparency.	**Medium**	**Short- to medium-term**	**High**	Reputational damage, reduced external funding and access to international financial services, higher borrowing costs, and increased scrutiny of Panamanian entities.	Enhance efforts in improving transparency and comply with international standards. Include tax crimes as a predicate offence for ML. Rapidly expand agreements for AEOI with countries.
Correction in residential/commercial property prices	**Medium**	**Short- to medium-term**	**Medium**	Sharp reductionin wealth would reduce domestic demand and trigger negative feedback loops in the economy. Non-performing loans in the banking system would increase significantly.	Strengthen monitoring of systemic risk. Put in place framework for macroprudential policy and consider additional macroprudential measures to stem credit growth.
Relaxation of fiscal policy/deficit ceilings.	**Low**	**Medium-term**	**Medium**	Larger borrowing and contribution to fiscal vulnerability. Reduced market confidence.	Build fiscal buffers and commit to fiscal targets below the SFRL ceilings.

1 The Risk Assessment Matrix (RAM) shows events that could materially alter 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 below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability 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. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex V. Implementation of 2011 FSAP Recommendations

Recommendation	Status/Expected Completion Date
Banking Oversight	
Finalize and implement regulations on operational and interest rate risks.	The SBP set qualitative requirements on operational management in December 2011 and in 2017 will finalize regulations for capital charges for these risks in line with Basel standards with full implementation planned for 2018.
Enhance systemic risk monitoring and the capacity to implement macro-prudential policies.	• A new credit risk regulation incorporating dynamic provisioning and accounting treatment of restructured loans was issued in May 2013. • The Financial Coordination Council, which consists of main financial supervisory agencies, was established in 2012. It mainly functions as an information exchange and coordinating body for the supervision of financial conglomerates, but over the medium-term plans to enhance its capacity for systemic risk oversight. The FCC could also play a coordinating role in macro-prudential policy. • The SBP publishes a Financial Stability Report on an annual basis, which includes an assessment of overall risks to financial stability, including those emanating from outside of the banking sector. The report includes the results of credit risk stress tests and of the stability of foreign deposits in the banking system Planned upgrades include a more detailed analysis of household indebtedness and house price developments as existing data gaps are filled as well as network analysis to understand the risks presented by interconnections among banks and with other financial institutions, both within Panama and abroad. • The SBP has developed a methodology to identify systemically important banks for Panama adapted from the Basel Committee's assessment methodology for systemically important banks and is considering the design of macro-prudential measures for these institutions.
Develop capital adequacy and regulatory reporting standards for holding companies.	• Regulation establishing a minimum capital requirement for bank holding companies was issued in February 2015, while also aligning definition of capital with Basel III rules, with the exception of the capital conservation buffer. Credit risk weighting was also revised in February 2016, incorporating elements of Basel II. • Other supervisory requirements, including concentration limits, governance structure and financial reporting, have been set for banking groups as well.
Develop concentration limits and risk management requirements for interbank deposits.	No plans to develop such requirements explicitly for interbank deposits, while there are general concentration limits for single counterparty.

Enhance offsite supervision to develop a view on macroprudential and systemic risk trends.	• Off-site supervision was improved in 2012 through requirement for banks to report monthly performance and early warning indicators to the SBP based on supervisory data.
Regulate and effectively supervise cooperatives that provide credit and savings products.	No ongoing initiatives.
Insurance Sector Oversight	
Approve draft Insurance Law with strengthened prudential requirements.	• Law 12 (dated April 3, 2012) created the Superintendency of Insurance and includes solvency and liquidity requirements. • Law 65 (dated December 9, 2016) modifies the insurance premium tax to provide more financial resources for the Superintendency and enhance its autonomy from the central government.
Strengthen disclosure of performance indicators and brokers' commissions.	The Superintendency of Insurance publishes, on a monthly basis, performance indicators for each insurer and reinsurer and publishes an annual report on the insurance industry. Published performance indicators include written premiums, claims, policies, solvency margin, delinquencies, and insurers' technical results.
Securities Market Oversight	
Strengthen the budgetary position, and the supervisory and enforcement capabilities of the supervisor (National Securities Commission).	• Law 67 (dated 1 September 2011) upgraded the Commission to a Superintendency (SMV), strengthening its supervisory and enforcement capacity as well as its budgetary position. • Law 23 (dated April 27, 2015) strengthened SMV's ability to exchange information with other supervisors (both within Panama and foreign supervisors). • Law 66 (dated December 9, 2016) introduced a new fee structure to strengthen and guarantee the autonomy and budgetary position of the SMV. Under the new fee structure, the SMV is expected to be fully self-financed. • In 2015, the Specialized Department for the Prevention of Illicit Activities, including AML/CFT issues, was established. • Fund TA is supporting the development and strengthening of risk-based supervision and oversight of the securities market.
Payments and Securities Systems Oversight	
Create a comprehensive payments system law guaranteeing payment finality.	Law 66 (dated December 9, 2016) amends the Securities Market Law to introduce rules on Central Counterparties (CCPs) and Financial Market Infrastructures (FMIs). These entities have access to the clearing house operated by the Banco Nacional and could facilitate the clearing and settlement of transactions.
Adopt an RTGS or Hybrid Payments System.	The SBP and the industry, including Banco Nacional, are currently investigating the possibility of introducing a real-time gross settlement system.

Financial Safety Nets	
Conclude studies and introduce a bank liquidity facility.	A liquidity facility of US$500 million was created by Banco Nacional in 2016, but is a general repo facility versus a facility for emergency liquidity assistance. There is no consensus among stakeholders to develop a liquidity facility for systemic risks.
Establish a deposit insurance scheme.	No initiatives so far.
Capital Market Development	
Build a single yield curve across domestic and global bonds by dual listing and extending market making to global bonds.	Ongoing. Since 2011, the Ministry of Economy and Finance has published information about the yields of Panamanian government bonds of different maturities. Development of a yield curve for corporate bonds is pending with a committee conducting a preparatory study with the intent to introduce regulatory reforms in support of the development of a yield curve for corporate bonds. The authorities have also been making efforts to extend market making to global bonds.
Review and restructure or close public development banks and guarantee funds.	No initiatives so far.

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PANAMA

April 17, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of February 28, 2017)

Membership Status: Joined: March 14, 1946; Article VIII

General Resources Account:	**SDR Million**	**%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**	**%Allocation**
Net cumulative allocation	197.01	100.00
Holdings	128.22	65.09

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	**Date of Arrangement**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-By	Jun 30, 2000	Mar 29, 2002	64.00	0.00
EFF	Dec 10, 1997	Jun 20, 2000	120.00	40.00
Stand-By	Nov 29, 1995	Mar 31, 1997	84.30	84.30

Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):[1]

	Forthcoming			
	2017	2018	2019	2020
Principal				
Charges/Interest	0.16	0.21	0.21	0.21
Total	0.16	0.21	0.21	0.21

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Safeguards Assessment
Under the Fund's safeguards assessment policy, the National Bank of Panama (NBP) was subject to the transitional procedures with respect to the Stand-By Arrangement, which was approved on June 30, 2000, and expired on March 29, 2002. The transitional procedures required a review of the NBP's external audit mechanism only. The assessment was completed on July 12, 2001 and concluded that NBP's external audit mechanism was at the time adequate.

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 2016 Article IV consultation was concluded on May 23, 2016. Panama is on the standard 12 month consultation cycle.

FSAP: A first-time FSAP was concluded in September 2011. It confirmed the banking sector's strength and resilience to potential shocks, noting nonetheless that data gaps prevent a full analysis of macro-financial linkages. It concluded that the regulatory framework for banks was broadly adequate, but the regulation of nonbanks had important shortcomings. It recommended to build the capacity to monitor systemic risks and introduce a financial safety net, including a facility aimed at addressing temporary liquidity shortfalls and a limited deposit insurance fund.

Technical Assistance
Panama is a large recipient of technical assistance (TA) directly through the Fund or CAPTAC-DR. Latest assistance covered a broad range of topics. Assistance in the fiscal area included options to strengthen the fiscal framework, tax administration, and fiscal risks. Support was provided with the national accounts, producer price and export and import prices. Assistance was also provided in improving external sector statistics to facilitate the transition to BPM6. In the financial area, TA concentrated on improving the bank resolution framework and macroprudential policy, the latter as part of a regional TA program. TA has also been provided to improve risk-based supervision, particularly of the banking sector, namely country and transfer risk supervision and to develop a market risk assessment tool.

Resident Representative: None.

RELATIONS WITH THE WORLD BANK-UNDER JMAP

(As of March 21, 2017)

Title	Products	Provisional Timing of Missions	Expected Delivery Date (Closing date)
Lending (active)	Second Programmatic Shared Prosperity Development Policy Loan (P151804)	May 2016	June 2017
	Metro Water and Sanitation Improvement (P119694)	September 2016	June 2017
	Catastrophe Deferred Draw Down Disaster Risk Management Development Policy Loan (P122738)	September 2016	November 2017
	Enhanced Public Sector Efficiency Technical Assistance Loan (P121492)	April 2016	August 2018
	Sustainable Production Systems and Conservation of Biodiversity (P145621)	September 2016	December 2019
	Strengthening Social Protection and Inclusion System (P155097)	June 2016	February 2022
Advisory Services and Analytics, Trust Funds (active)	Panama Disaster Risk Management Program (TF017335)	September 2016	May 2016
	Probabilistic Risk Assessment to Improve Resilience to Natural	September 2016	September 2016

	Hazards in Panama (TF014499)		
	Urban Mobility Reform (P155132)	April 2016	June 2016
	Panama Property Tax Assessment	April 2016	June 2016
	Integrated Urban Water Management in Colon (P154539)	September 2016	July 2016
	Panama Public Private Partnership (P146838)	April 2016	July 2016
	Urban Planning to Panama City Phase II (P159648)	September 2016	September 2016
	School Dropout: Causes and Consequences (P155484)	September 2016	December 2016
	Panama Energy Diagnostics (P154315)	September 2016	January 2017
	Implementation of Trade Facilitation Agreement (P156050)	May 2016	June 2017
	Water Security for Panama: Key Building Blocks for Development of the National Water Security Plan (P159466)	April 2016	June 2017
	WASH Poverty Diagnostic (P150563)	September 2016	September 2017
	Treasury's Fee-For-Service for the Fondo de Ahorro de Panama	April 2016	April 2019

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of March 30, 2017)

In 2016, the IDB disbursed a total of $513.2 million. The Bank approved five loans for a total of $600 million. Two of them were Policy Base Loans (Logistic Planning, Multimodal Transport and Logistic Platforms and Transparency and Equity in Spending on Social Protection II) in the amount of $400 million and three investment loans for the following projects: Panama Online Program ($22 million), Innovation Program for Social Inclusion and Productivity ($30 million) and Sanitation ($150 million).

The preliminary projection of disbursements for 2017 is around $286 million. The IDB expects to approve six loans for $347 million in the areas of Education, Transport and Logistics, Public Services Development, Fiscal and Financial Transparency, Cross-border Integration, and rehabilitation of cultural heritage.

Panama: Relations with the Inter-American Development Bank

(In millions of U.S. Dollars)

Operations			
Sector	Approved	Disbursed[1]	Undisbursed Amounts
Modernization of the State	22.0	0.0	22.0
Innovation	30.0	0.0	30.0
Social Protection	200.0	221.1	168.9
Transportation	200.0	223.8	6.8
Water and Sanitation	150.0	43.9	311.67
Education	0.0	19.0	17.4
Fiscal and Municipal Management	0.0	3.2	0.0
Energy	0.0	2.1	13.0
Total	602.0	513.12	569.77

Loan Transactions							
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017[2]**
a. Disbursements	181.1	170.8	303.9	392.8	418.6	513.2	286.1
b. Repayment	99.9	104.9	108.7	102.3	114.2	157.3	186.9
c. Net lending	**81.1**	**66.0**	**195.2**	**290.5**	**304.4**	**355.9**	**99.2**
d. Interest and charges	49.0	45.6	55.3	55.5	68.2	80.2	85.2
e. Subscriptions and contributions	1.9	3.6	0.0	2.0	1.7	1.7	0
f. Net transfer	**30.2**	**16.7**	**139.9**	**233.0**	**234.6**	**274.0**	**14**

Source: Inter-American Development Bank.

[1] Includes disbursements from approvals in previous years.

[2] Estimated.

STATISTICAL ISSUES

(As of March 30, 2017)

Assessment of Data Adequacy for Surveillance
General: Data provided to the Fund has some shortcomings but is broadly adequate for surveillance. The accuracy, timeliness, and publication of economic statistics has improved, but weaknesses in national accounts, government finance, and balance of payment statistics need to be addressed.
Real Sector: Although the timeliness of real sector data provision has improved, the data are often subject to sizable revisions. The IMF national accounts technical assistance mission conducted in 2010-11 noted slow progress in expanding coverage of financial activity as well as the overestimation of the deflator used to calculate the financial services output in volume terms. Since 2011, progress was made in compiling financial intermediation services indirectly measured (FISIM) on a monthly basis following the *2008 System of National Accounts (2008 SNA)*, as well as in broadening the coverage of household output, employment, compensation of employees, and mixed income in informal activities for 2007-2012 due to the progress in the compilation of employment matrices. Quarterly GDP data and the monthly economic activity index have benefited from the use of monthly VAT records as source data, and from the correct application of the Denton Proportional method for aligning quarterly data to annual data (reducing further revisions) and the X13 ARIMA-SEATS software for seasonally and calendar-adjusting the quarterly series. In addition, IMF technical assistance has been provided to compile input-output tables; to compile the financial account and the flow of funds table; to develop updated producer, export, and import price indices; and to support the development of the quarterly economic surveys to non-financial enterprises. After the change of the base year of the national accounts (NA) to 2007, the rebased NA data from the production approach were published for 2007-2016. NA data from the expenditure and income approaches are available for 2007-2015.
Government finance statistics: Further efforts are needed to improve the quality of fiscal data. Apart from timeliness, consistency of data related to the transfers between public sector units should be improved. Since September 2004, the operational balance of the Panama Canal Authority (ACP) was excluded from the official definition of the nonfinancial public sector (NFPS) used for fiscal policy purposes. Information on the ACP is only available in the Annual Report posted in its website (www.pancanal.com) on a fiscal year basis. There is a need to ensure a consistent and timely flow of ACP statistics. Moreover, in 2011, three public enterprises have been excluded from the NFPS accounts and public debt (Tocumen International Airport, ETESA, an electricity distribution company, and ENA, the National Highway company). It would also be necessary to compile and disseminate information on these entities in a timely fashion. The 2012 decree establishing the Savings Fund of Panama (Fondo de Ahorro de Panama, or FAP) mandated reporting of deferred payment schemes (e.g. turnkey projects) in budget documentation. The authorities received technical assistance from the IMF Statistics Department (STA) to implement the Government Finance Statistics Manual 2001 (GFSM 2001) and the Fiscal Affairs Department (FAD) conducted a mission on observance of fiscal standards and codes (ROSC) in October 2005. The August 2012 CAPTAC report on fiscal statistics for financial programming also emphasized the need to increase the information and analysis of turnkey projects' impact on fiscal sustainability. In 2011 through 2013, FAD provided technical assistance in the area of public accounting, including implementation of

Assessment of Data Adequacy for Surveillance (concluded)
government accounting reforms and the practical application of the accounting policies established in the International Public Sector Accounting Standards (IPSAS), an important step toward improving fiscal transparency. The authorities have also started to publish the liabilities derived from the turnkey projects and contingent liabilities of state-owned enterprises. The financial accounting system was not prepared to support the recording of transactions and economic events under the accrual method. The authorities launched a new platform for centralized management of public sector financial information (Integración y Soluciones Tecnológicas del Modelo de Gestión Operativa, ISTMO), which would help enhance transparency and efficiency. Panama reports limited fiscal data to STA (for publication in the International Financial Statistics or the Government Finance Statistics Yearbook).
Monetary and Financial Statistics: Panama regularly reports monetary data for depository corporations using the standardized report forms (SRFs) for publication in the *International Financial Statistics*. Panama participated in a regional project for harmonizing monetary and financial statistics in Central America and the Dominican Republic, supported by CAPTAC. The aim was to facilitate cross-country comparison and regional analysis. The second stage of the harmonization project developed a work program to expand the institutional coverage to include other depository corporations and all other financial corporations (OFCs). Panama reports Financial Soundness Indicators (FSIs) to STA on a regular (quarterly) basis with data beginning on 2005. Data gaps prevent a deeper analysis of systemic risks as the authorities do not collect adequate data on real estate prices, loan write-offs, loan-to-value ratios, and leverage indicators for households and corporate.
Balance of payments: Quarterly data are available with a delay of about one quarter, and are subject to revisions thereafter. Revised estimates in key trade and investment data may result in substantial revisions of the current account of the balance of payments. These revisions may reflect improvements in coverage, but they also suggest that there is room for improvement in quality control procedures. Data on outward FDI and repatriation of profit and dividends from these investments are only collected from the financial private sector, implying that the current account deficit and the International Investment Position (IIP) are likely being overestimated, due to the lack of coverage of outward FDI of the nonfinancial private sector. Official statistics may also underestimate inward portfolio investment. The authorities conducted Coordinated Direct Investment Survey (CDIS) and Coordinated Portfolio Investment Survey (CPIS) to improve external sector data quality in the context of CAPTAC Regional Harmonization Project of External Sector Statistics (RHPESS). Quarterly IIP data have been compiled since 2002, and annual data are available since 1998. TA has also been provided on the definition, compilation and dissemination of international reserves. Panama recently began publishing BOP and IIP data in the BPM6 format.
DATA STANDARDS AND QUALITY
Panama has participated in the Fund's General Data Dissemination System (GDDS) since December 2000, but the metadata need to be updated. A data ROSC was published in October 2006. Following an SDDS assessment mission conducted by STA in April 2011, and in November 2013, the authorities have a work program aimed at meeting the requirements for Panama's subscription to the SDDS. An action plan has been prepared and followed up by subsequent missions.

Panama: Table of Common Indicators Required for Surveillance

(As of March 30, 2017)

	Date of latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items: Data Quality–Methodological Soundness[7]	Memo Items: Data Quality–Accuracy and Reliability[8]
Exchange Rates	3/2017	3/2017	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	12/2016	3/2017	M	M	M		
Reserve/Base Money	NA	NA	NA	NA	NA		
Broad Money	12/2017	3/2017	M	M	M		
National Bank of Panama Balance Sheet	2/2017	3/2017	M	M	A		
Consolidated Balance Sheet of the Banking System	12/2016	3/2017	M	M	M		
Interest Rates[1]	12/2016	3/2017	M	M	M		
Consumer Price Index	2/2017	3/2017	M	M	M	O, LNO, LO, LO	LO. LO. LO. O, LO
Revenue, Expenditure, Balance and Composition of Financing[2] – General Government[3]	12/2016	2/2017	Q	Q	Q	LO, LNO, LO, O	O, LO, LO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[2]–Central Government	12/2016	2/2017	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[4]	12/2016	2/2017	M	M	M		
External Current Account Balance	12/2016	3/2017	Q	Q	Q	LO, LO, O, LO	LO, O LO, LO, LNO
Exports and Imports of Goods and Services	12/2016	3/2017	M	M	M		
GDP/GNP	Q4/2016	3/2017	Q	Q	Q	O, O, O, LO	LO, LO, LNO, LO, LNO
Gross External Debt	12/2016	3/2017	M	M	M		
International Investment Position [5]	12/2016	3/2017	Q	Q	Q		

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

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

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

[4] Including currency and maturity composition.

[5] Includes external gross financial asset and liability positions vis-à-vis nonresidents, including of offshore bank.

[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

[7] Reflects the assessment provided in the data ROSC, published in October 2006 based on the findings of the mission that took place during February 7–23, 2006. For the dataset corresponding to the variable in each row, the assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.