

PANAMA

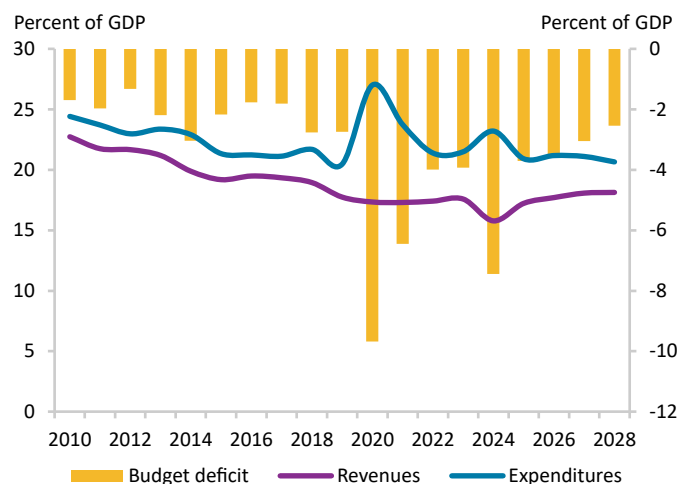
Growth recovered to 4.4 percent in 2025, driven mainly by services, and is projected around 4 percent over 2026–28. Fiscal consolidation strengthened in 2025, via improved revenue collection and targeted spending cuts, meeting fiscal targets. Poverty is estimated to have decreased between 2024–25. Sustained tax reforms and efficient, equitable public spending are essential for growth and faster poverty reduction.

Key conditions and challenges

Panama has been among Latin America’s most dynamic economies over the past three decades, leveraging its strategic location, Panama Canal operations, and services to sustain growth and reduce poverty. Pre-pandemic, the economy grew nearly 6 percent annually, driven by large-scale investment and trade openness, reducing poverty (at US\$8.3/day, 2021 PPP) from about 60 percent to 20 percent between 1980s–2010s and consolidating one of the largest middle classes in the region. In 2018, Panama reached high-income status, yet key socio-economic indicators lag upper-middle-income averages, particularly in education. Inequality is high (Gini around 50), informality touches half of workers, and poverty incidence is high in indigenous comarcas (78.2 percent in 2024).

The end of megaprojects, mine shutdown, and canal drought slowed down growth in 2024 and widened fiscal deficit. Long-standing fiscal weaknesses—low revenue, rigid spending, subsidies, and debt surpassing 60 percent of GDP—triggered a partial loss of investment grade status in 2024 (by one rating agency), widening sovereign spreads and tightening access to affordable financing.

FIGURE 1 / Revenues, expenditures, and deficit



Sources: Ministry of Finance of Panama and World Bank.

Population ¹ million	Poverty ² millions living on less than \$8.30/day
4.6	0.9
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
79.6	95.2
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
90.6	19828.1

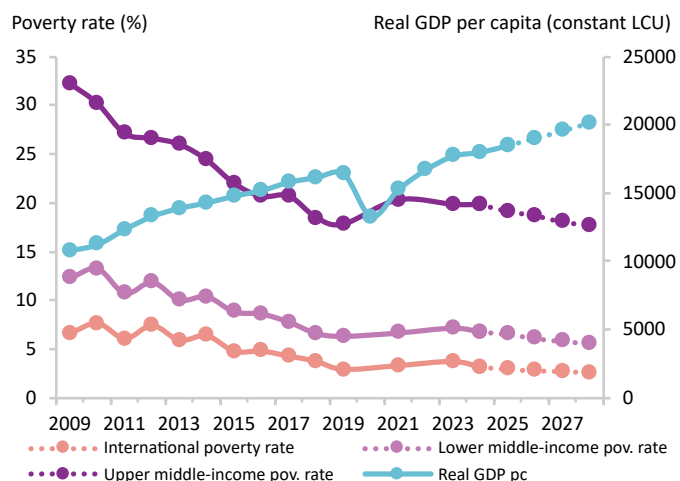
Sources: WDI, MFM, and official data. 1/ 2025. 2/ 2024 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2025. 6/ 2025.

Addressing these challenges requires boosting private investment and improving fiscal management—domestic revenue mobilization and spending efficiency. To attract investment, Panama must continue improving its investment climate and strengthening competitiveness beyond tax incentives, building on gains like its removal from the Financial Action Task Force grey list. A credible medium-term fiscal strategy—anchored in meaningful tax reform, greater transparency, and efficient social spending—can restore market confidence, support critical public investment, and reduce inequalities.

Recent developments

GDP growth is estimated at 4.4 percent for 2025, supported by strong demand amidst ongoing fiscal consolidation constraining public spending. Exports—boosted by Canal operations—were the primary driver, while investment, notably private residential construction, contributed positively to growth. On the supply side, services were the main engine, led by retail, transport, and financial intermediation. Inflation stayed subdued, up 0.2 percent versus 2024.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

Poverty (US\$8.3/day, 2021 PPP) is estimated to have declined from 19.8 to 19.1 percent between 2024–2025—after hovering around 20 percent since 2021 due to post-pandemic slowdown—driven by accelerated growth, which raised total per capita household income by 2.1 percent. Nevertheless, the weak labor market, with informality around 53 percent, limits the impact of jobs on poverty reduction. Inequality remains high, though the Gini coefficient is estimated down from 49.7 in 2024 to 49.5 in 2025.

The current account posted a surplus in 2025 around 0.8 percent of GDP, boosted by logistics and transport services and a rebound in exports from authorized copper concentrate shipments. Higher volumes of coffee exports partially offset lower banana and sugar exports, while imports rose, as higher capital and consumer goods outweighed lower intermediate goods. Foreign Direct Investment fell year-on-year, reflecting weaker reinvested earnings and investment.

Panama achieved sharp fiscal consolidation in 2025: the non-financial public sector deficit fell from 7.4 (2024) to 3.7 percent of GDP in 2025 (below the 4 percent target of Fiscal Responsibility Law), while primary deficit narrowed to -0.7 percent of GDP. This adjustment reflected stronger tax enforcement, higher Canal-related revenues, wages freeze, postponement of capital outlays, and a pension reform that eased the liquidity needs of the social insurance funds. Public debt reached about 65.6 percent of GDP by December-2025.

Outlook

Panama's medium-term outlook is positive, with GDP growth projected around 4 percent over 2027–2028, driven by services—mainly finance, logistics and Canal-related transport—as the economy

settles and construction activity normalizes. Copper mining is not assumed to resume over the forecast horizon. Growth could slightly slowdown in 2026 to 3.9 percent due to a fall in global trade resulting from the Middle East conflict and inflation is projected higher around 1.5 percent. Growth, particularly in agriculture and industry, is expected to gradually reduce poverty to 17.7 percent by 2028 (US\$8.3/day, 2021 PPP).

The external position remains broadly consistent with past trends, with a current account surplus in 2025 turning to a modest deficit, thereafter, mainly driven by debt-service repayments. Foreign direct investment, nearing 2.5 percent of GDP in 2025–26, is expected to strengthen as confidence improves and to cover external needs.

Gradual fiscal consolidation continues, with the deficit targeted at 3.5 percent of GDP in 2026 and 2.5 by 2028. With spending cuts, stronger revenue collection (tax reforms) should support deficit reduction. Debt is projected steady around 65 percent by 2028, given stronger debt management, diversified financing, and deeper financial domestic markets.

Risks are tilted to the downside. Global trade tensions, climate risks affecting Canal operations, tighter global financing, and lower investor confidence could weigh on the growth outlook. Prolonged conflict in the Middle East poses further risks on growth and external balance: as net petroleum importer, Panama's terms of trade and current account could deteriorate, while global instability could disrupt shipping routes, dampening Canal traffic; domestic risks also include potential logistics disruptions from ongoing state reclaiming of Panama's two main ports. On the upside, faster fiscal revenue reforms and a potential mine reopening could improve the outlook.

Recent history and projections

	2023	2024	2025e	2026f	2027f	2028f
Real GDP growth, at constant market prices	7.4	2.9	4.4	3.9	4.1	4.1
Private consumption	4.8	3.4	4.4	3.8	3.7	3.7
Government consumption	3.4	2.7	0.3	1.0	0.9	1.4
Gross fixed capital investment	18.8	3.8	3.6	4.0	4.3	4.2
Exports, goods and services	5.1	-3.5	5.9	4.7	5.3	5.5
Imports, goods and services	7.1	-8.4	3.3	3.7	3.9	4.1
Real GDP growth, at constant factor prices	7.4	2.9	4.4	3.9	4.1	4.1
Agriculture	0.5	4.7	3.0	3.0	3.1	3.3
Industry	12.8	-4.0	3.7	4.2	4.7	4.9
Services	5.7	5.5	4.7	3.8	4.0	3.9
Employment rate (% of working-age population, 15 years+)	58.2	58.1	58.2	58.3	58.4	58.6
Inflation (consumer price index)	1.5	0.7	0.9	1.5	1.6	1.5
Current account balance (% of GDP)	-3.1	1.9	0.8	-0.9	-0.7	-0.9
Net foreign direct investment inflow (% of GDP)	1.7	2.8	2.5	2.5	2.7	2.9
Fiscal balance (% of GDP)	-3.9	-7.4	-3.7	-3.5	-3.0	-2.5
Revenues (% of GDP)	17.6	15.8	17.2	17.7	18.1	18.1
Debt (% of GDP)	56.4	62.3	65.6	65.3	64.9	64.7
Primary balance (% of GDP)	-1.3	-4.5	-0.7	-0.3	0.0	0.4
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	3.7	3.1	2.9	2.8	2.8	2.6
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	7.2	6.8	6.6	6.1	5.8	5.7
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	19.8	19.8	19.1	18.7	18.1	17.7
GHG emissions growth (mtCO2e)	2.7	2.3	1.9	2.4	2.8	2.9

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on SEDLAC harmonization, using 2024-EH. Actual data: 2024. Nowcast: 2025. Forecasts are from 2026 to 2028.

2/ Projections using microsimulation methodology.