

PANAMA

Table 1 **2023**

Population, million	4.5
GDP, current US\$ billion	83.5
GDP per capita, current US\$	18690.9
International poverty rate (\$2.15) ^a	1.3
Lower middle-income poverty rate (\$3.65) ^a	4.4
Upper middle-income poverty rate (\$6.85) ^a	12.9
Gini index ^a	48.9
School enrollment, primary (% gross) ^b	101.5
Life expectancy at birth, years ^b	76.2
Total GHG emissions (mtCO2e)	31.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2023), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Panama is estimated to have grown 6.5 percent in 2023 fueled by strong construction, commerce, transport, tourism, the Colon Free Trade Zone, and financial activities during the first three quarters. Improving labor market conditions helped reduce poverty in 2023. However, the economy faced significant challenges in Q4, including slow Canal traffic, protests, and the subsequent closure of Cobre Panama, which are likely to affect inclusive growth during the forecasting period.

Key conditions and challenges

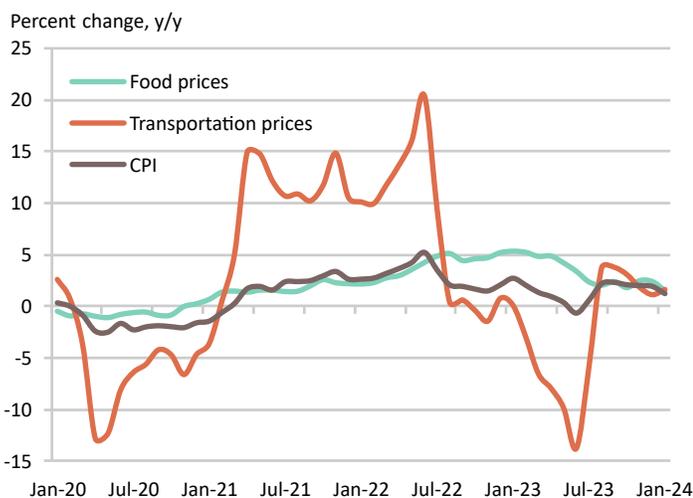
Panama is a crucial logistical and financial hub in Central America, which thrives on trade and services. The Panama Canal is critical for global trade and has an important impact on Panama's economy. Yet, its growth has been primarily fueled by capital and labor accumulation. Sustained robust growth over the past thirty years supported strong job creation, leading to a sharp decrease in poverty (from 48.2 percent in 1991 to 12.9 percent in 2023 at \$6.85 a day per capita, 2017 PPP). However, Panama remains one of the most unequal countries in the world, in part because of its very unequal labor market and limited redistributive capacity. As growth started to decline in the second half of the 2010s, unemployment and informality started to increase, peaking during the pandemic. Relative to 2019, the labor market has not fully recovered, and the government's emergency transfer Nuevo Programa Panama Solidario (NPPS) has played an important role in poverty reduction. Panama is an attractive offshore center due to its strategic location and dollarization. Authorities implemented important reforms in recent years to promote governance and transparency. These include modification of the anti-money laundering and counter-terrorism financing (AML/CFT) prevention regulation and significant improvements in beneficial

ownership information which led Panama to exit the International Financial Action Task Force's (FATF) list of jurisdictions in October 2023 and the EU's list for non-cooperative jurisdictions for tax purposes in March 2024. Comprehensive reforms in Public Private Partnerships (PPP) and procurement led to an increase in PPP financing for important infrastructure projects.

Recent developments

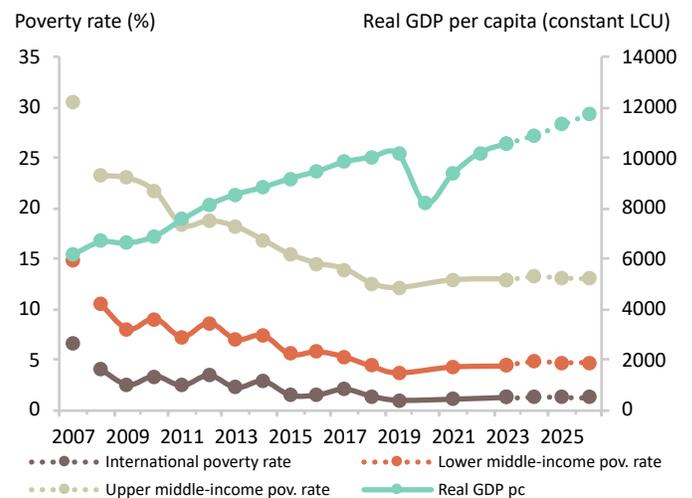
Due to street protests, the Supreme Court's declaration of the contract with Cobre Panama as unconstitutional, and a slowdown in the Panama Canal driven by prolonged drought, growth decelerated significantly in the last quarter of 2023, resulting in a 6.5 percent year-on-year increase for the entire year. This performance was supported by a surge in activities across various sectors, including construction, transport and storage, wholesale and retail commerce, utility, business services, and hotels and restaurants, which collectively employ 45 percent of the workers. Inflation decreased to 1.5 percent in 2023, led by a reduction in transport and food prices (Figure 1). Progress in poverty reduction was, however, uneven in 2023 (Figure 2). The unemployment rate improved to 7.4 percent, and support from the NPPS contributed to a decline in the poverty rate (US\$6.85/day per capita 2017 PPP) from 14.0 percent in 2022 to 12.9 percent in 2023. However, poverty increased in rural areas

FIGURE 1 Panama / Total, food and transport inflation



Source: Instituto Nacional de Estadística y Censo.

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



Source: World Bank. Notes: see Table 2.

from 29.3 to 32.3 percent during the same period as the sluggish recovery of non-agricultural labor markets in these areas failed to offset the gradual withdrawal of NPPS support.

Despite the challenging events of 2023, both the fiscal and primary deficit saw marginal declines to 3.8 percent and 1.7 percent of GDP, respectively. This was attributed to restrained government spending and an increase in tax and non-tax revenue. Notably, revenue included US\$576 million in royalties and taxes from the copper mine, US\$500 million from the sale of land to the Panama Canal Authority, and an increase in the efficiency of tax collection due to digital tax platforms. The current account deficit is estimated to have increased to 4.9 percent, as a result of a decline in copper and service exports, an increase in the imports of the Colon Free Trade Zone, and outflows of primary and secondary income. FDI is expected to experience a modest decrease from 3.8 percent in 2022 to 3.5 percent in 2023, indicative of a potential decline in investor confidence following the decision of the Supreme Court to declare Cobre Panama's contract as unconstitutional.

Outlook

Growth is expected to sharply decline in 2024 to 2.5 percent as copper production comes to a halt; however, the dynamism in the services sector should help gradually lift growth over the medium term. Poverty rates (US\$6.85 a day per capita, 2017 PPP) are projected to increase by almost 0.5 percentage points in 2024 due to the anticipated discontinuation of the NPPS and slower growth. However, GDP growth is expected to accelerate from 2025 onwards as Panama maintains its appeal as an attractive investment destination. Consequently, poverty is expected to start decreasing modestly in 2025 as the economy recovers and the labor market regains its pre-pandemic dynamism. Inflation is expected to stabilize at 2 percent.

The overall and primary deficits are expected to widen to 4.3 and 2.1 percent in 2024, respectively, impacted by lower revenues and higher expenditure, before gradually declining to 3.7 and 1.5 percent of GDP by 2026. This fiscal consolidation process relies on further containing spending (including the phasing out of

subsidies), and improvements in tax administration. Public debt is forecast to peak at 59 percent in 2024 and gradually decline to 57.7 percent by 2026 (Table 2).

The current account deficit is projected to narrow gradually to 4.7 percent of GDP by 2026. Merchandise exports are expected to remain subdued while service exports continue to be robust, supported by air transport, logistics, and tourism. FDI is estimated to recover gradually to 3.8 percent by 2026, continuing to finance most of the current account deficit, supplemented by portfolio investment and public sector financing. International reserves are expected to stay around 13 percent of GDP during 2024-2026.

Despite the downward pressure on the sovereign ratings of Panama following the closure of Cobre Panama, the country still has good access to capital markets as a dollarized economy with a stable macroeconomic environment and investment grade. This outlook is subject to several risks. The next administration will need to tackle important structural fiscal challenges and make progress in adapting to changing climate, such as increased frequency and intensity of hurricanes and droughts that could affect water levels in the canal.

TABLE 2 Panama / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	15.8	10.8	6.5	2.5	3.5	4.0
Private consumption	10.8	7.1	7.4	2.3	2.4	2.7
Government consumption	9.8	7.8	10.7	4.7	4.7	6.1
Gross fixed capital investment	45.1	7.3	8.3	4.6	4.0	3.7
Exports, goods and services	14.9	16.0	17.0	0.1	3.4	4.0
Imports, goods and services	17.0	23.7	20.3	2.1	2.3	2.3
Real GDP growth, at constant factor prices	15.7	10.7	6.5	2.5	3.5	4.0
Agriculture	4.7	5.2	2.0	1.5	1.4	1.3
Industry	30.2	12.3	10.8	-2.8	-1.2	0.7
Services	11.7	10.4	5.2	4.5	5.2	5.2
Inflation (consumer price index)	1.6	2.9	1.5	1.5	2.0	2.0
Current account balance (% of GDP)	-1.4	-4.0	-4.9	-6.1	-5.7	-4.7
Net foreign direct investment inflow (% of GDP)	2.0	3.8	3.5	3.4	3.8	3.8
Fiscal balance (% of GDP)	-6.4	-4.0	-3.8	-4.3	-3.8	-3.7
Revenues (% of GDP)	17.3	17.4	17.6	17.3	17.8	18.0
Debt (% of GDP)	60.1	57.9	57.5	59.0	58.4	57.7
Primary balance (% of GDP)	-4.2	-2.3	-1.7	-2.1	-1.6	-1.5
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	1.1	..	1.3	1.4	1.4	1.3
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	4.3	..	4.4	4.8	4.7	4.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	12.9	..	12.9	13.3	13.2	13.1
GHG emissions growth (mtCO₂e)	-1.0	7.2	35.2	-0.1	0.9	2.4
Energy related GHG emissions (% of total)	43.8	46.7	60.0	59.4	59.1	60.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on SEDLAC harmonization, using 2023-EH. Actual data: 2023. Forecasts are from 2024 to 2026.

b/ Projections using microsimulation methodology.