

PANAMA

Table 1 **2021**

Population, million	4.4
GDP, current US\$ billion	63.6
GDP per capita, current US\$	14515.0
International poverty rate (\$2.15) ^a	1.0
Lower middle-income poverty rate (\$3.65) ^a	3.7
Upper middle-income poverty rate (\$6.85) ^a	12.1
Gini index ^a	49.8
School enrollment, primary (% gross) ^b	94.7
Life expectancy at birth, years ^b	78.7
Total GHG emissions (mtCO2e)	25.2

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2019), 2017 PPPs.
 b/ Most recent WDI value (2020).

Panama's strong rebound in 2021 and 2022 and convergence to pre-pandemic poverty levels will lead to another year of high growth and shared prosperity, supported by transport, tourism, and carry-over effects. However, downside risks are accumulating. Subsidies and tax cuts will add extra expenditures in 2022 and delays in pension reform are jeopardizing deficit targets achievement in the medium term. Recent social unrest underscores the need to support the poor and vulnerable.

Key conditions and challenges

Panama is a net fuel and food importer, and a dollarized economy, which had one of the highest growth rates in Latin America and the Caribbean (LAC) before COVID-19, supported by logistics, tourism, financial services, and construction. Panama's strong rebound in 2021 set the country on a high-growth path for 2022 due to large carry-over effects. However, current external conditions like COVID-19, global inflation, and monetary tightening are unfavorable, while the episodes of social unrest in July, triggered by inflation, have slowed economic activity (Figure 1).

Poverty rates approached pre-pandemic levels in 2021 partly because of the Programa Panama Solidario (PPS), the government's emergency transfer program. It is estimated that the poverty headcount would have been 4 percentage points higher without PPS. In addition, labor market outcomes, especially for women, have not fully recovered, and one out of three households reported limited access to food.

Positive economic momentum helps, but it is not sufficient to sustain high growth over time. Panama needs reforms to address low productivity, low human capital; it also needs to improve the efficiency of public investment, while addressing the post-COVID-19 fiscal imbalances. Reform progress, however, has been timid. The

country made small advances on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), although it is still on the grey list, and Public-Private Partnerships (PPPs), but not on pension reforms, the chances of which diminished following recent social unrest.

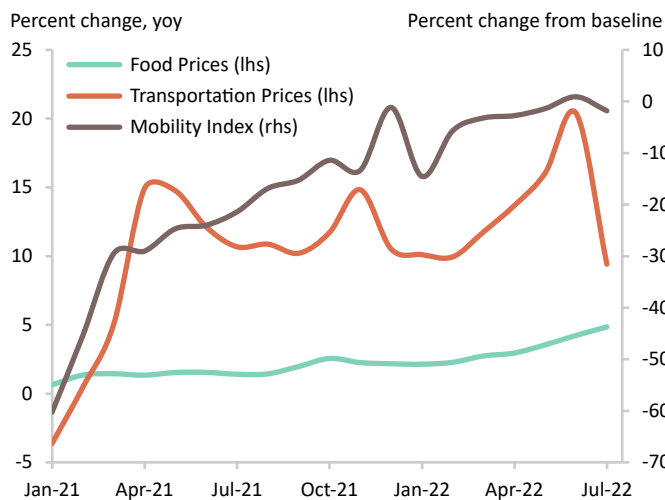
Recent developments

Panama continued to grow strongly in 2022, with GDP expanding 13.6 percent in the first quarter, led by construction and tourism. The monthly economic activity index grew 13.2 percent, and copper production, Panama's main export, and one large post-COVID-19 growth driver grew 3.3 percent in the first half of 2022.

Inflation (12-month average) reached 3.2 percent in July 2022, led by transport (12.5 percent, weight in the CPI basket: 16.8 percent) and food (2.8 percent, weight: 22.4 percent), but is slowing because of subsidies and tax cuts for fuel and foods that were implemented in July, which will cost up to US\$300 million. While higher food prices affect lower-income households mostly, transportation and food costs are a relevant share of expenditures for middle-income households. The employment rate grew from 60.4 in 2021 to 62.3 percent in 2022, and the unemployment rate dropped from 11.3 to 9.9 percent, however neither has reached pre-pandemic levels (66.5 and 7.1 percent, respectively).

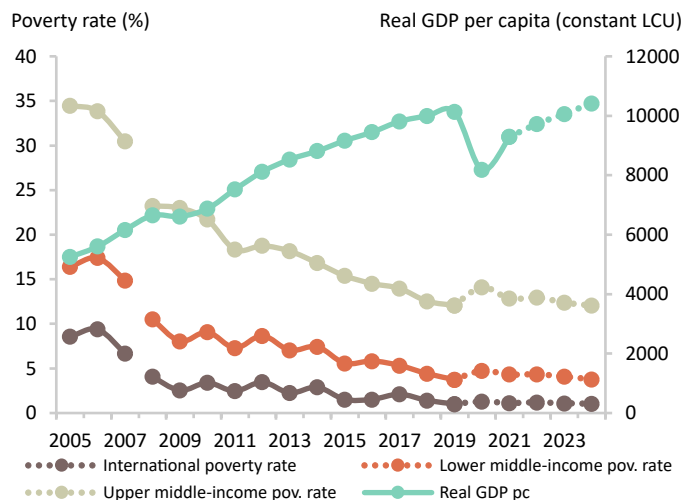
Fiscal results improved with revenues posting growth of 7.8 percent in the first half of 2022 and current expenditures growing by

FIGURE 1 Panama / Food and transportation inflation and mobility activity



Sources: INEC and Google Mobility Index.
 Note: The mobility Index baseline is the median value from the 5-week period Jan 3 to Feb 6, 2020, calculated for each day of the week.

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



Source: World Bank. Notes: see Table 2.

a moderate 2.3 percent. Public investments declined slightly (-2.9 percent). The primary and overall deficit declined by 23.3 and 14.4 percent, respectively.

The current account deficit (CAD) nearly doubled in the first quarter: increasing from US\$153.8 million in 2021 to US\$292.6 million in 2022, because of a higher deficit in the trade of goods (caused by higher commodity prices). The wider CAD was more than compensated for by an increase in the financial account surplus from US\$669.4 million in 2021 to US\$3,243 million in 2022, with foreign direct investment (FDI) more than tripling in the same period.

consumption and investment should moderate in the medium term in a fiscal consolidation environment. Inflation will be higher in 2022 (4.5 percent) and in 2023 (3 percent) due to higher food and transport prices, but inflation will converge to 2 percent in the medium term.

It is estimated that poverty will decrease to 13 percent in 2022 (US\$6.85 a day 2017 PPP)¹ due to the mitigation effects of the New PPS (NPPS) and the continued recovery of the labor market.²

The CAD will widen in 2022 to 3.5 percent of GDP on the back of higher import prices, despite increased service exports. Nonetheless, the CAD should be

easily financed. Over the medium term, the CAD is expected to stabilize around 3 percent of GDP, once the effect of higher food and oil prices phases out.

Fiscal consolidation is expected to continue but will likely require additional structural fiscal reforms to meet the deficit targets set by the Fiscal and Social Responsibility Law, which would stabilize the debt-to-GDP ratio at 64 percent. The debt has low cost (at an average interest rate of 3.95 percent on the debt stock), with more than 80 percent of the debt with fixed interest rates and an average maturity of 16 years. However, downside risks have increased: (i) the new contract with Panama Cobre that would raise the government revenues by US\$375 million has not been formally approved by congress; and (ii) the pension reform, which is needed to curb the increase in government transfers to cover deficits, has stalled. Continued social unrest, climate change, and natural disasters can trigger new expenditures.

Outlook

GDP growth is expected to reach 6.2 percent in 2022 and then stabilize at around 5 percent in the medium term, led by private consumption and investment, while public

1/ As of fall 2022, the WBG updated the upper-middle income poverty line (UMIC) to \$6.85 as differences in price levels across the world evolve.

2/ The government created the NPPS in 2022 to last until December to support poor and vulnerable households still affected by the COVID-19 crisis. It includes pre-existing support (digital food vouchers and food baskets) and adds a labor market inclusion intervention.

TABLE 2 Panama / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	3.0	-17.9	15.3	6.2	5.0	5.0
Private Consumption	3.4	-18.5	8.5	6.4	4.5	4.3
Government Consumption	4.5	4.3	4.3	2.6	3.0	3.0
Gross Fixed Capital Investment	0.0	-37.9	40.3	12.5	8.0	7.4
Exports, Goods and Services	-0.1	-22.0	15.5	6.8	6.0	6.0
Imports, Goods and Services	-3.3	-29.3	20.0	10.2	7.0	6.5
Real GDP growth, at constant factor prices	3.2	-17.9	15.3	6.2	5.0	5.0
Agriculture	2.5	3.8	6.7	3.0	2.5	2.0
Industry	3.4	-32.1	30.6	7.4	4.0	3.7
Services	3.2	-12.7	10.7	5.9	5.5	5.6
Inflation (Consumer Price Index)	-0.4	0.0	1.6	4.5	3.0	2.1
Current Account Balance (% of GDP)	-5.0	2.3	-2.2	-3.5	-3.0	-2.9
Net Foreign Direct Investment Inflow (% of GDP)	5.5	3.2	5.0	5.1	5.3	5.8
Fiscal Balance (% of GDP)	-2.9	-10.4	-6.7	-4.0	-3.1	-2.3
Debt (% of GDP)	46.4	69.8	63.7	64.0	63.7	63.6
Primary Balance (% of GDP)	-1.0	-7.8	-4.2	-1.6	-0.6	-0.1
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	1.0	1.3	1.1	1.2	1.1	1.0
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	3.7	4.7	4.3	4.3	4.1	3.8
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	12.1	14.1	12.9	13.0	12.4	12.1
GHG emissions growth (mtCO₂e)	15.6	-3.8	3.6	6.8	6.9	3.6
Energy related GHG emissions (% of total)	50.6	52.0	51.5	54.0	56.4	57.1

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

Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.

a/ Calculations based on SEDLAC harmonization, using 2019-EH. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projections using microsimulation methodology.