SUMMARY

1. Panama has a small, relatively open economy that is highly dependent on services, especially those related to foreign trade. The Panama Canal and the development of free zones make the country one of the world's most important distribution and re-export centres, which is why in 2019, the sum total of Panama's exports and imports of goods and services was equivalent to 82% of GDP. Services accounted for 70% of GDP during the review period; in 2020, the most important services were wholesale and retail trade; transport, storage and communications; financial intermediation; and real estate, business and rental activities. All of these services are related in some way to international trade. The structure of Panama's merchandise trade is of particular importance: a distinction must be drawn between trade from the Panamanian customs territory *per se* and trade through the Colón Free Zone, where three quarters of the value of the country's total merchandise trade is processed. During the review period, there was a significant change in the type of merchandise exported by Panama: until 2018, agricultural and food products dominated, whereas in 2019, exports of mining products, specifically copper, which were previously non-existent, commenced following the opening of a copper mine that year, accounting for 56% of all goods exported in 2020.

2. The Panamanian economy grew rapidly between 2013 and 2017, but in 2018 entered a period of lesser growth as a result of the drop in the momentum generated by the works to widen the Panama Canal. This economic expansion was followed in 2020 by a sharp contraction of 17.9% caused by the effects of the COVID-19 pandemic. Economic activity continued to be affected by the pandemic in the early months of 2021 when real GDP shrank by 8.5%. For most of the review period, the primary driver of economic growth was domestic demand, especially gross fixed capital formation. In 2020 and 2021, the authorities implemented a series of measures in fiscal, income, monetary and financial matters to mitigate the effects of the pandemic.

3. Panama uses the United States dollar as its currency of legal tender and thus does not have its own monetary policy instruments. Nor does it have a central bank that performs functions such as currency issuance, the management of bank reserves, credit regulation or lender of last resort. The nominal exchange rate between the dollar and the national currency, the balboa, is fixed at parity. Local interest rates and the money supply are determined by market forces and influenced by international interest rates and the monetary policy adopted by the United States Federal Reserve. There are no mechanisms for controlling interest rates, no legal reserve requirements on bank deposits, and no restrictions on the flow of funds out of or into the banking system. During the review period, interest rates remained relatively stable, owing primarily to the liquidity derived from international capital flows by way of foreign direct investment (FDI) in the early years of the period and loans in the aftermath of the health crisis.

4. In the absence of a monetary policy as such, fiscal policy plays a key role as a tool for macroeconomic management: any variation in the real exchange rate must be offset through fiscal or other policies that affect prices. Since 2008, Panama has applied a fiscal rule that the net debt to GDP ratio should not exceed 40%. This target was reinforced in 2018; however, targets have been reformulated in light of the pandemic so as to allow higher fiscal deficits until 2025. Despite the fiscal rule, the rise in (primarily capital) expenditure has resulted in the public finances recording deficits throughout the review period that, almost every year, exceeded the legal limits. In 2020, the deficit widened considerably owing to the lower revenue and greater expenditure occasioned by the pandemic. The main fiscal policy challenge is still to increase revenues. The public debt to GDP ratio grew during the review period, reaching over 69% in 2020. However, as there is no foreign exchange risk, Panamanian debt can be placed on the international markets at relatively low rates, a factor that has been instrumental in implementing the measures taken to counter the negative effects of the pandemic.

5. Panama's current account balance of payments was in deficit during the period 2013-19, primarily reflecting the imbalance in the balance of trade in goods; it was financed by the surplus in the capital and financial accounts resulting mainly from FDI flows. Owing to the slump in imports of goods and services caused by the pandemic, which surpassed even the fall in exports, the current account posted a surplus of more than USD 1,200 million in 2020. The deteriorating fiscal and balance of payment conditions led Panama to request and obtain financial support from the IMF, initially to address the immediate balance of payments needs and then in 2021 as insurance against extreme external shocks.

6. The objective of trade policy in Panama is to improve performance in exports of goods and services and to attract foreign investment. The aim of the export promotion strategy is to improve the quality of exports, take advantage of trade agreements and access new markets. Two new special regimes were created in 2020 and 2021 to attract more foreign investment in both agricultural activities and support services for manufacturing (EMMA special regime). Moreover, investment continues to be promoted in its traditional target sectors by offering new incentives, making it easier to obtain permanent residency and maintaining legal stability. Free zone and like regimes are central elements of Panama's external trade and investment policy; these regimes are regarded as helping to diversify the economy and consolidate the country's integration into international value chains.

7. Panama has been a Member of the WTO since 1997 and grants at least most favoured nation (MFN) treatment to all its trade partners. The multilateral system is of great importance to Panama as an economy that is heavily reliant on international trade-related activities, and the country therefore advocates a rules-based, inclusive multilateral trading system. In 2015, Panama ratified the Trade Facilitation Agreement and since 2017 has granted preferential treatment to services and service providers from least developed countries (LDCs). Panama supports the negotiations on services and initiatives to eliminate distortions in agriculture and fisheries; it also participates in discussions on new trade-related topics. Since the previous review in 2014, Panama has regularly notified its trade and related measures. As to dispute settlement, since 2014, Panama has not been involved in any dispute as a complainant; however, one complaint was filed against Panama.

8. Panama participates in a number of trade agreements, including the Central American Common Market (CACM) and the Latin American Integration Association (LAIA). Six trade agreements entered into force in Panama during the review period: with the European Free Trade Association (EFTA) in 2014; with Mexico in 2015; with Trinidad and Tobago in 2016; with Israel in 2020; and with the Republic of Korea and the United Kingdom in 2021.

9. Panama affords national treatment to foreign investment without the need for authorization or registration. It places no restrictions on the repatriation of investment capital or on remittances of dividends, interest or other profits to other countries. However, apart from repatriated dividends, remittances are generally subject to a withholding tax. Panama promotes the employment of its nationals in companies established in Panama.

10. Although Panama's investment regime is essentially open, there are some restrictions. Both domestic and foreign investment is prohibited in electricity transmission and mail services: two activities where a state monopoly exists. Private investment is also prohibited in mineral deposits and salt pans, as they are the property of the State and a concession is required for their exploitation. Foreign investment continues to be prohibited in communications media, retail activities, and tourism (with a few exceptions), and foreigners may not purchase land in certain areas of the country. Moreover, there are restrictions on FDI in air and road transport as well as free-to-air radio and television services.

11. Import and export procedures did not change substantially during the review period. A customs broker is still required for imports, but is optional for exports or re-exports. The Single Window for Foreign Trade, an office that deals with various formalities, can be used only for export (and re-export) procedures. The goods valuation procedure did not change during the review period. Panama mainly uses the transaction value.

12. Since 2018, Panama has, with certain exceptions, used the Central American Import Tariff, which is based on the Harmonized System (HS) 2017. Panama uses *ad valorem* tariffs for 99.7% of the tariff universe. During the period 2013-21, the simple average applied MFN tariff fell from 7.6% to 6.9%, due to the increase in tariff lines that are duty-free, from 34.5% to 45.5%. This was the most significant change in the Tariff Schedule during the review period. The average tariff for agricultural products (WTO definition), which rose from 13.7% in 2013 to 15.2% in 2021, is still much higher than the average applied tariff for non-agricultural products (5.3%). Panama bound its entire Tariff Schedule at rates ranging from 0% to 260%. In addition to tariffs, imported and domestic products alike are subject to indirect taxes and the Administrative Charge for Customs Services (TASA).

13. As in 2014, Panama continues to offer tariff concessions to promote various sectors of the economy, as well as special customs regimes such as free zones and other export support programmes, investment and duty-free shops. In addition, the Cabinet Council may provide for other reductions or exemptions from payment of customs duty. Thus in 2020, in light of the pandemic, Panama temporarily lowered or eliminated tariffs on certain disinfectants, protective materials and oxygen.

14. Panama may impose prohibitions, controls or restrictions on imports or exports when necessary in order, *inter alia,* to protect the environment, human, animal or plant health, or security, or in respect of staple goods in short supply, or in respect of such goods as may be determined by the Executive in accordance with Panama's economic interests. With the exception of the prohibition on the export of a tropical wood, Cocobolo, there have been no changes to the goods subject to these measures since the previous review.

15. Panama does not make frequent use of anti-dumping and/or countervailing measures. During the review period, it did not initiate any anti-dumping or countervailing duty investigations and nor did it impose any anti-dumping or countervailing measures. In the context of this review, the authorities indicated that the legislation governing such measures has not been amended since 2014. Where safeguards are concerned, Panama initiated an investigation in 2019 that was subsequently dropped. Panama is also able to impose bilateral and special safeguard measures negotiated under trade agreements. In that connection, Panama opened several investigations that led to the imposition of safeguard measures on some agricultural products (beef, other cheese, yoghurt, whole milk powder and butter). Over the period 2014-20, Panama did not use the WTO special agricultural safeguard. In 2018, Panama adopted temporary measures to control the marketing of beef imports from Nicaragua and Costa Rica.

16. Export promotion continues to be one of the mainstays of Panamanian trade policy. Panama applied to the WTO for an extension to the time limit for eliminating the export subsidies granted under the export processing zones (ZPE) and Official National Industry Register (ROIN) programmes. Panama maintained the subsidies until 31 December 2015 and notified the measures it had taken to dismantle them. Panama also maintains a number of export support programmes, comprising different customs regimes (duty drawback, duty-free replacement of goods, and temporary admission regimes), various types of special economic zones (free zones, Colón Free Zone and Panama-Pacific Special Economic Area) and other tax incentive schemes. In general, Panama does not impose export taxes, charges or levies, except on processed wood from natural forests, which is subject to a levy of 1% of the f.o.b. value. As in 2014, there are currently no official export finance, insurance and guarantee programmes in Panama.

17. In addition to incentives to promote exports, Panama offers horizontal incentives in the form of special schemes, such as the special zones, business headquarters (SEM) and EMMA regimes and the City of Knowledge initiative, that are intended to drive investment, stimulate production and to promote employment and the transfer of technology and knowledge. There are also incentives that target particular sectors and/or specific provinces. Most sectoral incentives have not changed substantially since the previous review in 2014 and are still intended, *inter alia*, to promote banana production, reforestation, mining, renewable energy, the film and audiovisual industry, call centres, tourism, construction and the shipbuilding industry.

18. The aim of standardization policy in Panama is to develop technical specifications that can be used on a voluntary basis as a benchmark to improve the quality and safety of any technological, scientific, or industrial activity or services. The procedures for drafting technical regulations have not changed significantly since 2014. They are usually reviewed at five-year intervals or upon request. Only one of the technical regulations notified by Panama was the subject of a specific trade concern that was raised with the WTO Committee on Technical Barriers to Trade.

19. During the review period, Panama adopted the Central American Regulations on Sanitary and Phytosanitary Measures and Procedures. As a result, and in order to harmonize its measures with those in place regionally, Panama made some changes to its system of sanitary and phytosanitary measures (SPS). Panama maintains strict controls at its borders so that it can protect animal and plant health and therefore continue to develop its agricultural sector. During the review period, Members questioned five plant and animal health measures notified by Panama. One of these resulted in a complaint against Panama under the dispute settlement system.

20. There has been no substantial change in Panama's competition regime since 2014. The regime applies to all transactions conducted in Panama and abroad, provided that they affect competition on the Panamanian market. The activities excluded from the competition regime are those carried out by the State, namely those that are the subject of a state monopoly (power transmission and mail services) or are not subject to concessions, such as the Panama Canal and gambling activities. The sectoral regulations for the electricity and telecommunications markets also include provisions on competition. During the review period, Panama maintained regulation of petrol and diesel prices, and from 2014 began to regulate the price of liquid petroleum gas cylinders and the price of products in the basic basket. In 2020, the selling price of essential goods was also regulated in the midst of the pandemic.

21. The government procurement regime is used in all public entities and companies in public ownership, except the Panama Canal Authority (ACP) and the Social Security Fund, which have their own procurement regimes. Foreigners are able to participate in government procurement processes in Panama and are afforded national treatment unless they are from a State that imposes discriminatory restrictions on Panama. Since 2014, the government procurement system has undergone several changes, including the adoption of new procurement methods, thresholds and preferences; a streamlining of bureaucracy in the procurement process; and the promotion of socially and environmentally responsible procurement. Government procurement is decentralized. The ACP's procurement system was also amended during the review period, particularly where procurement methods and thresholds are concerned. Panama has observer status on the Committee on Government Procurement.

22. Between 2014 and 2021, the requirements and conditions for the protection of intellectual property rights in Panama have not undergone substantial change. During that time, only a few patents were granted to residents, potentially implying that inventiveness is low despite the incentives Panama employs to promote R&D, such as the City of Knowledge. By contrast, the registration of trademarks by residents is high, showing that trade is a very important activity in the country.

23. The agricultural sector, despite its limited contribution to GDP (2.4% in 2020), is very important for socioeconomic development because it employs over 14% of the workforce in rural areas. For that reason, Panama uses trade measures in addition to the Tariff Schedule to protect or promote agriculture and stock-farming, such as plant and animal health controls, safeguard measures, transfer pricing, export promotion programmes, marketing support measures and other programmes and projects implemented by the responsible entities in the sector. The average tariff applied to agricultural products (WTO definition) was 15.2% in 2021 and continues to be much higher than the average tariffs applied to non-agricultural products (5.3% in 2021). Panama uses tariff quotas for various agricultural products (rice, pig meat, poultry meat, potatoes, dairy products, beans and tomatoes) and they are distributed using non-automatic licensing. Quota use varies substantially depending on the product:, take-up is almost 100% for some (pig meat and tomatoes), while they are not used for others (beans). During the period 2014-20, Panama did not grant any export subsidies for agricultural products. Nonetheless, a series of incentive programmes was implemented, including the Agricultural Exports Promotion Certificate (CEFA) and the Agricultural and Agro Industrial Promotion and Modernization Programme (PROMAGRO) to promote agricultural exports; the programmes have been restricted to just a few products so their impact has not been significant. Through the Agricultural Development Bank (BDA), a state development bank, the agricultural sector has access to credit at preferential rates; additionally, developing the agricultural sector is one of the primary objectives of the National Bank of Panama (BNP).

24. Since the previous review in 2014, Panama has diversified its energy basket, offering incentives for using clean, renewable sources so as to reduce the effects of climate change and the country's dependence on imported fossil fuels. Private domestic and foreign investment in power generation, distribution and marketing is permitted. Foreigners may hold a controlling stake in any of these activities. Control over transmission remains in the hands of the State, which also participates in the other activities in the electricity sector. Panama continued to subsidize consumer electricity tariffs and to maintain cross subsidies to finance subsistence consumption; additionally, some customers obtained further discounts in light of the pandemic.

25. Services are Panama's most important sector, especially financial and trade-related services. Financial intermediation activities accounted for about 7.5% of GDP and 2.5% of employment in 2020. As of 31 July 2021, the banking sector comprised 68 banks (compared to 92 in 2013): two

were official banks, 40 held a general licence, 16 had an international licence and 10 an agency licence. Most of these banks were in foreign ownership. The banking sector continued to show resilience and high levels of capitalization and liquidity during the review period, despite the adverse effects of the COVID-19 pandemic. This is the result of the strict application of prudential regulations. In June 2021, the capital adequacy ratio in the banking sector was 16.2%, well above the regulatory minimum of 8%. The authorities consider that the strict prudential requirements are particularly important given the absence of a central bank and deposit insurance. To counter the adverse effects of the pandemic, as of 1 March 2020, a moratorium was established on the payment of loans granted by banks, cooperatives and finance companies, whether public or private, until 31 December 2020. The moratorium was subsequently extended until 31 December 2021.

26. As in transport services, Panama has become much more important in the telecommunications sector regionally because it is the hub for the regional and international fibre-optic network. During the review period, the principal change in the telecommunications market was an increase in concentration: two companies were taken over by a new company that became the main service provider. Panama continues to restrict access to the mobile telephony market by limiting the number of operators.

27. Panama is an important hub for air and port transhipment and has become a logistics hub for trade at regional and global levels. The state-run Tocumen International Airport is a transfer hub for flights in the region and the regional centre for one of the world's leading delivery services. Transhipments dominate in the ports sector as a result of the Panama Canal: in 2020, nine out of 10 containers passing through Panama were transhipments. Around 2.3% of world maritime trade transits through the Panama Canal. As a result, the sale of maritime fuel has become an important activity for Panama. Canal revenue is a significant proportion of total non-tax revenues received by Panama (75.1% in 2020). In 2020, the Canal's direct contribution to GDP was 3.5%, and when indirect contributions are taken into account, it was 5.2%.

28. As to maritime transport, in 2017, the Maritime Single Window of Panama came into use to improve the efficiency of port operations. Although Panama removed the restriction on participation by foreigners in lighterage and provisioning services in 2015, since 2017 it has been possible to restrict the number of licences issued for the provision of port services, including maritime lighterage and provisioning. Panama has the largest shipping register in the world, a product of the flexible registration procedures and credits it provides. Panama also offers incentives to shipyards, as well as marine insurance and finance.

29. In 2019, prior to the pandemic, tourism accounted for 51% of Panama's services exports. Foreigners may provide certain services in the sector. In 2020, various support measures were put in place to mitigate the effects of the pandemic and promote tourism; local tourism was also promoted as a driver of recovery.