

PANAMA

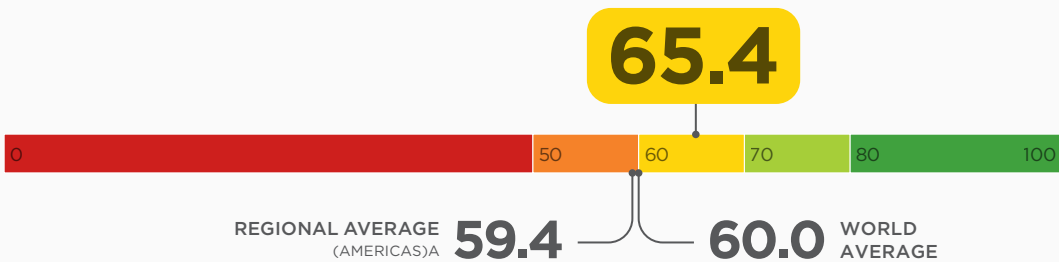
Panama's economic freedom score is 65.4, making its economy the 56th freest in the 2022 *Index*. Panama is ranked 11th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

The Panamanian economy has softened over the past five years and lost significant ground in 2020 before rebounding in 2021. Moderately solid economic freedom has been sustained but not strengthened over the past half-decade. With score declines in **government integrity** and **fiscal health** slightly outweighing improvements in **judicial effectiveness** and **labor freedom**, Panama has recorded a 0.9-point overall loss of economic freedom since 2017 and remains in the middle ranks of the "Moderately Free" countries. Fiscal health is precarious, but **labor freedom** has improved.

IMPACT OF COVID-19: As of December 1, 2021, 7,367 deaths had been attributed to the pandemic in Panama, and the government's response to the crisis ranked 122nd among the countries included in this *Index* in terms of its stringency. The economy contracted by 17.9 percent in 2020.

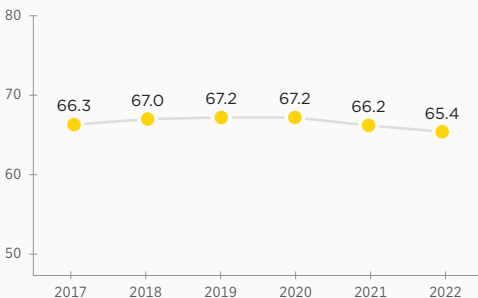


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): -6.2

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
4.3 million

GDP (PPP):
\$115.5 billion
-17.9% growth in 2020
5-year compound annual growth -0.2%
\$27,003 per capita

UNEMPLOYMENT:
10.2%

INFLATION (CPI):
-1.6%

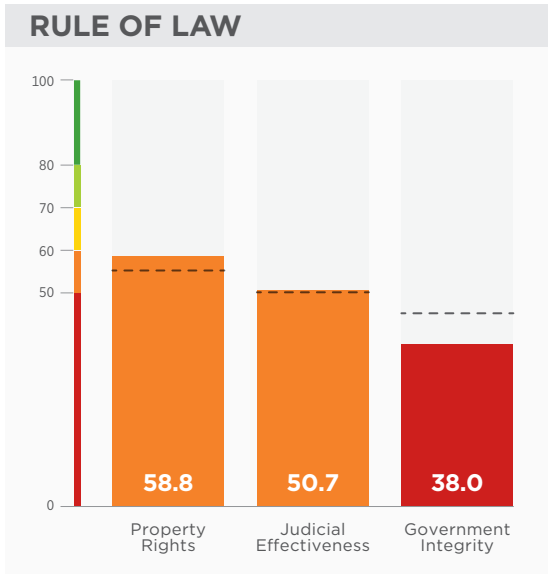
FDI INFLOW:
\$589.0 million

PUBLIC DEBT:
63.5% of GDP

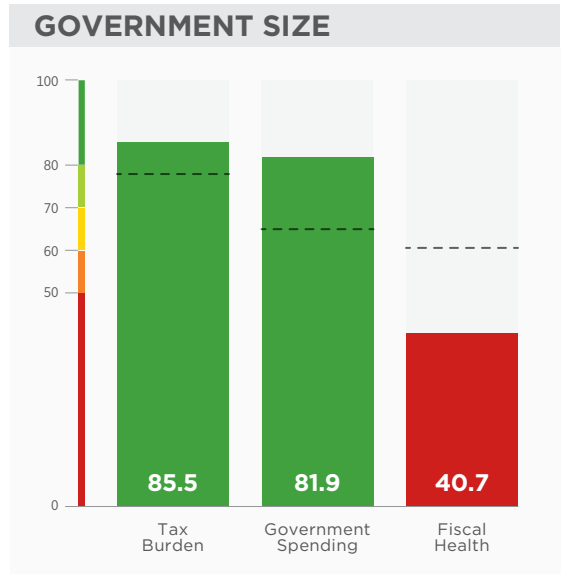
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: Panama's isthmian canal connecting the Caribbean Sea and Pacific Ocean has been a vital conduit for global commerce since it opened in 1914. President Laurentino "Nito" Cortizo of the Revolutionary Democratic Party (PRD) began a five-year term in 2019. Cortizo is negotiating a free-trade agreement with China. Although its growth has slowed in recent years, Panama's dollar-based economy has been stimulated by the canal's ambitious 2016 expansion, additional public infrastructure projects, and rising copper exports. The well-developed services sector accounts for more than 75 percent of GDP. Panama has long been an illicit financing and narco-trafficking hub, and international regulators have increased their oversight.

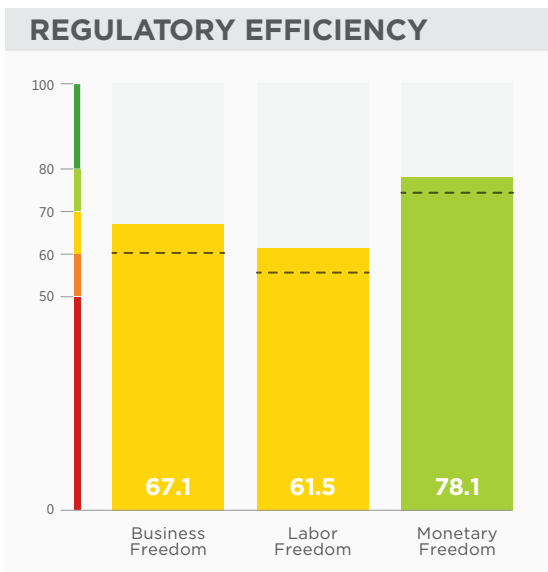
12 ECONOMIC FREEDOMS | PANAMA



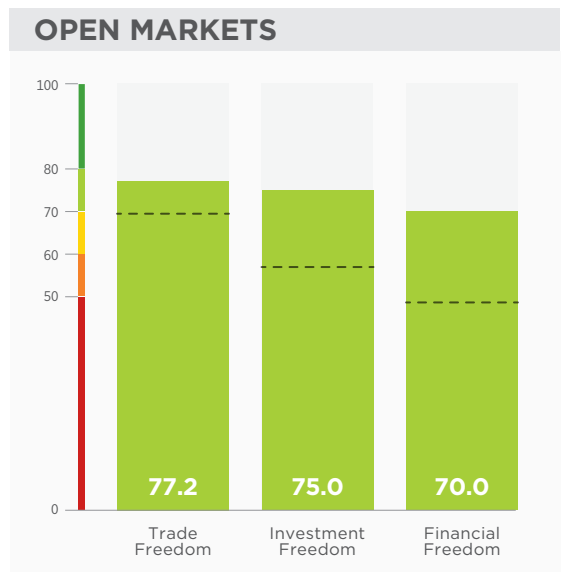
Private property is recognized by law, but enforcement is undermined in part by organized crime. Most land in Panama is not titled. The country's judicial system is plagued by corruption and inefficiency. Courts are backlogged, are underfunded, and lack qualified staff and technology. Corruption, especially corruption related to narco-money laundering and tax evasion, is rampant in the private sector and at all levels of government.



The top individual income and corporate tax rates are 25 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 14.1 percent of total domestic income. Government spending has amounted to 24.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.7 percent of GDP. Public debt is equivalent to 63.5 percent of GDP.



It is relatively easy to start and operate a business in Panama, and the well-developed services sector derives most of its revenue from activities related to operations of the recently expanded Panama Canal. Panama's very restrictive labor code holds back growth, and about one-fourth of the population lives in poverty. Because of dollarization, inflation has been stable and relatively low.



Panama has 18 preferential trade agreements in force. The trade-weighted average tariff rate is 6.4 percent, and 20 nontariff measures are in effect. In general, the government does not screen or discriminate against foreign investment, which has been officially welcome and subject to national treatment, but there are sectoral restrictions. The financial sector, vibrant and generally well regulated, provides a wide range of services.