PANAMA

Panama’s economic freedom score is 67.2, making its economy the 50th freest in the 2019 Index. Its overall score has increased by 0.2 point, with a higher score for fiscal health exceeding a decline in government integrity. Panama is ranked 9th among 32 countries in the Americas region, and its overall score is above the regional and world averages.

Panama’s economy has depended on transportation and logistics services, along with debt-financed public works infrastructure projects. Despite the potentially negative long-term effects of several nontransparent deals between China and the Varela government under China’s “One Belt, One Road” program, the short-term rise in foreign direct investment inflows has kept growth rates above 5 percent. International pressure over governance of Panama’s offshore banking continues, and the government has reaffirmed its commitment to implementing anti-money laundering reforms, but persistent corruption still undermines the rule of law.

BACKGROUND: Panama’s isthmian canal connecting the Caribbean Sea and Pacific Ocean has been a vital conduit for global commerce ever since it opened in 1914. An ambitious expansion project was completed in 2016. President Juan Carlos Varela’s single five-year term ends in 2019. His predecessor, Ricardo Martinelli, was arrested in Miami in 2017 and extradited to face corruption charges in Panama. Panama’s U.S. dollar–based economy has been among the fastest growing in the region, encouraged by the canal’s expansion and other public infrastructure-improvement projects. It is based primarily on a well-developed services sector that accounts for more than 75 percent of GDP. A longtime money-laundering hub, Panama recognized China diplomatically in 2017 and began negotiations on a free-trade agreement.

ECONOMIC FREEDOM SCORE

REGIONAL AVERAGE (AMERICAS REGION) 59.6
60.8 WORLD AVERAGE

RELATIVE STRENGTHS:
Fiscal Health and Government Spending

HISTORICAL INDEX SCORE CHANGE ( SINCE 1995):
-4.4

CONCERNS:
Judicial Effectiveness and Government Integrity

FREEDOM TREND

QUICK FACTS

POPULATION:
4.1 million
GDP (PPP):
$103.9 billion
5.4% growth in 2017
5-year compound annual growth 5.8%
$25,351 per capita
UNEMPLOYMENT:
4.5%
INFLATION (CPI):
0.9%
FDI INFLOW:
$5.3 billion
PUBLIC DEBT:
38.2% of GDP

2017 data unless otherwise noted. Data compiled as of September 2018.
The majority of land in Panama is not titled. Laws to address the lack of titled land have proved ineffective because of institutional deficiencies. Contracts are not strongly enforced. The judiciary is weak, inefficient, and subject to manipulation by the executive branch. Corruption is widespread, and the government lacks the systemic checks and balances needed to support the rule of law adequately.

The top personal income and corporate tax rates are 25 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 15.8 percent of total domestic income. Over the past three years, government spending has amounted to 22.2 percent of the country’s output (GDP), and budget deficits have averaged 1.9 percent of GDP. Public debt is equivalent to 38.2 percent of GDP.

The overall freedom to form and operate a business is relatively well protected within an efficient regulatory environment. The labor market lacks flexibility, and the nonsalary cost of hiring a worker is relatively high. Monetary stability has been sustained in recent years. However, about 75 percent of Panama’s energy-sector subsidies are untargeted, and electricity subsidies have been increasing.

The combined value of exports and imports is equal to 87.3 percent of GDP. The average applied tariff rate is 5.4 percent. As of June 30, 2018, according to the WTO, Panama had 20 nontariff measures in force. In general, the government does not screen or discriminate against foreign investment. The financial sector provides a wide range of services. About 50 percent of adult Panamanians have access to an account with a formal banking institution.