Panama’s economic freedom score is 67.2, making its economy the 55th freest in the 2020 Index. Its overall score is unchanged from the 2019 Index, with an improved score in government integrity offset by declines in other indicators. Panama is ranked 9th among 32 countries in the Americas region, and its overall score is well above the regional and world averages.

The Panamanian economy was considered mostly free in the early years of the Index but has been judged only moderately free for the past 19 years. GDP growth over the past five years has been solid due to Panama’s role as a logistics and financial hub.

The new president has pledged to tackle institutional weaknesses and fight corruption, which would address government integrity, one of the biggest obstacles to greater economic freedom in Panama. However, the new administration will struggle to shake off poor perceptions of judicial independence and low public trust in politicians, which weigh heavily on another Index indicator: business freedom.

**PANAMA**

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. After former President Juan Carlos Varela’s single five-year term ended, President Laurentino “Nito” Cortizo of the Revolutionary Democratic Party (PRD) was elected president and took office in July 2019. Although its growth has slowed somewhat in recent years, Panama’s U.S. dollar–based economy has been fueled by the canal’s expansion and other public infrastructure improvement projects and 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.

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The majority of land in Panama is not titled. Laws to address the lack of titled land have proven ineffective because of institutional deficiencies. The judicial system’s capacity to resolve contractual and property disputes is generally considered weak and open to corruption and undue influence. Corruption is rampant in the private sector and at all levels of the Panamanian government.

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 14.7 percent of total domestic income. Government spending has amounted to 21.8 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 1.9 percent of GDP. Public debt is equivalent to 39.4 percent of GDP.

Businesses are generally able to operate without excessive government interference, but the process of applying for permits and titles is opaque and can entail bribes. Panama has one of Latin America’s few service-based economies. Lack of skilled labor and English speakers limits business growth. The new government has phased out price controls on basic foodstuffs but has increased subsidies to the agricultural sector to stimulate local food production.

The total value of exports and imports of goods and services equals 87.6 percent of GDP. The average applied tariff rate is 5.4 percent, and 20 nontariff measures are in force, adding to the cost of trade. Foreign investment is officially welcome and subject to national treatment, but there are sectoral restrictions. The financial sector is vibrant and generally well regulated and provides a wide range of services.