



# PANAMA

Rank: **45**  
 Score: **2.70**  
 Category: *Mostly Free*

Trade Policy	<b>4</b>	Government Intervention	<b>3</b>	Foreign Investment	<b>2</b>	Wages and Prices	<b>2</b>	Regulation	<b>3</b>
Fiscal Burden	<b>3.5</b>	Monetary Policy	<b>1</b>	Banking and Finance	<b>1</b>	Property Rights	<b>4</b>	Black Market	<b>3.5</b>

Panama's leaders hope that tourism and shopping will boost economic prospects, since unemployment has climbed and economic growth has slowed in the wake of the U.S. handover of the Panama Canal and related properties. Over the past year, government inaction has resulted in no productive use of such former military installations as Howard Air Force Base, which continues to decay; and managers at the Panama Canal Authority are warning that Gatun Lake, which supplies most of the fresh water that fills the Canal and its locks, will run short in a decade. Meanwhile, the government is promoting the development of a cruise ship port on the Caribbean side of the Canal and near the Colon Free Trade Zone. Though a dollarized economy and strong banking institutions have attracted foreign investment, Panama continues to harbor money-laundering activities and is a reputed crossroads for drug mafias. Its lightly guarded border with Colombia affords a refuge for Colombian guerrillas who use the unpopulated Darien province for rest and resupply. Panama's property rights and black market scores are, respectively, 1 point and 0.5 point worse this year. As a result, its overall score is 0.15 point worse this year.

## TRADE POLICY

**Score: 4—Stable (high level of protectionism)**

Panama's average tariff rate is 12 percent. According to the U.S. Department of State, "Duties for most agricultural products have been increased to the maximum limits permitted by [World Trade Organization] accession. Additionally, the Government has erected substantial non-tariff barriers for certain agricultural products including chicken, beef, and some produce and dairy products."

## FISCAL BURDEN OF GOVERNMENT

**Score—Income and Corporate Taxation: 2.5—Stable**

**(moderate tax rates)**

**Score—Government Expenditures: 4—Stable**

**(high level of government expenditure)**

**Final Score: 3.5—Stable (high cost of government)**

Panama's top marginal tax rate is 30 percent; the average taxpayer is taxed at 4 percent. The top corporate tax rate is 30 percent. In 1999, government expenditures equaled 26.9 percent of GDP.

## GOVERNMENT INTERVENTION IN THE ECONOMY

**Score: 3—Stable (moderate level)**

The government consumes 16 percent of GDP. It also owns some telephone, electricity, and water systems, as well as some manufacturing companies. In 1998, Panama received 17.26 percent of its total revenues from state-owned enterprises and from government ownership of property.

### Scores for Prior Years:

**2001:** 2.55    **2000:** 2.40    **1999:** 2.40  
**1998:** 2.40    **1997:** 2.50    **1996:** 2.50  
**1995:** 2.40

**Population:** 2,811,000

**Land area:** 78,200 sq. km

**Major industries:** construction, petroleum refining, brewing, cement and other construction materials, sugar milling

**Major agricultural products:**

bananas, rice, corn, coffee, sugarcane, vegetables, livestock, fish (shrimp)

**GDP:** \$9.1 billion

**GDP growth rate:** 3.0%

**GDP per capita:** \$3,246

**Exports of goods and services:**

\$3.1 billion

**Major export trading partners:**

US 42.2%, Germany 10.7%, Costa Rica 5.3%, Belgium–Luxembourg 4.4%, Italy 4.1%

**Imports of goods and services:**

\$4.2 billion

**Major import trading partners:**

US 39.2%, Colon Free Zone 13.9%, Japan 8.0%, Ecuador 5.9%, Mexico 5.4%

**Foreign direct investment (net):**

\$21 million

## **MONETARY POLICY**

### **Score: 1–Stable (very low level of inflation)**

Between 1991 and 2000, Panama's weighted average annual rate of inflation was 1.33 percent, primarily because Panama has used the U.S. dollar as its currency since 1904.

## **CAPITAL FLOWS AND FOREIGN INVESTMENT**

### **Score: 2–Stable (low barriers)**

Most sectors of Panama's economy are open to foreign investment, although there are a few restrictions on "national interest" industries, ownership of land near the borders, retail trade, and some services.

## **BANKING AND FINANCE**

### **Score: 1–Stable (very low level of restrictions)**

Domestic competition in banking is relatively high, and major banks from all over the world operate in Panama. Offshore banking in the International Banking Center is significant and subject to little financial regulation. Foreign and domestic banks are treated equally. The government issues three types of licenses, which determine the services each bank may offer. Domestic banks are permitted to engage in a broad range of services. There are few restrictions on opening banks, and the government exercises little control over the allocation of credit. A banking reform law enacted in 1998 further modernized the banking system by requiring banks to adopt international banking standards and open their books to international auditing firms. This was followed in July 1999 by passage of a law regulating the securities market. The government has dropped plans to privatize two of its smaller specialized banks.

## **WAGES AND PRICES**

### **Score: 2–Stable (low level of intervention)**

The market sets most wages and prices, although the Economist Intelligence Unit reports that "the law limits price regulations to those where monopolistic practices can be demonstrated to do direct or imminent damage to consumers." The government applies controls to cooking gas and a small percentage of medicines, as well as some rents. It also imposes minimum wages.

## **PROPERTY RIGHTS**

### **Score: 4–Worse (low level of protection)**

Panama's constitution provides for an independent judiciary, but the judicial system is inefficient and subject to corruption. According to the Economist Intelligence Unit, "Panama continues to have problems with the judiciary and civil service, which still lack independence and have traditionally been plagued with corruption and scandals. No Panamanian government has yet addressed these issues." As a result of new evidence, Panama's property rights score is 1 point worse this year.

## **REGULATION**

### **Score: 3–Stable (moderate level)**

Regulations in Panama are generally transparent, but businesses can be hampered by red tape. Rigid labor laws, including Central America's highest minimum wage requirement, likewise stifle competitiveness. Corruption is a continuing problem; in a December 2000 poll of Panamanians, according to the Economist Intelligence Unit, it "was cited by 85% of those polled as a main obstacle to more effective government."

## **BLACK MARKET**

### **Score: 3.5–Worse (high level of activity)**

Transparency International's 2001 score for Panama is 3.7. Therefore, Panama's black market score is 3.5 this year.