Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Sep-2025 | Report No: PIDIC00236

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Panama	P508348	First Panama Fiscal Management and Growth DPL	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	14-Nov-2025	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Republic of Panama	Ministerio de Economia y Finanzas de Panama		

Proposed Development Objective(s)

The DPL supports Panama’s efforts to (i) enhance fiscal sustainability and the efficiency of fiscal management; and (ii) mobilize private investment, with emphasis on infrastructure and in natural assets.

Financing (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**1,300.00**

DETAILS

Total World Bank Group Financing	**1,242.50**
MIGA (face-value, no interest or dividends)	492.50
World Bank Lending	150.00
World Bank Guarantees	600.00
Total Non-World Bank Group Financing	**1,150.00**
Private Capital and Commercial Financing Amount	1,150.00
of which Private Capital	1,150.00

Guarantee Information

Guarantee Type	Coverage	Enclave Operation
Policy-Based Guarantee	Loan Guarantee	No

Is there an intermediate jurisdiction present in the guarantee beneficiary's structure?

TBD

Guarantee Beneficiary	Guarantee Fees	Guarantee Schedule
	Upfront	15-Dec-2025

Guarantee Expiration Date

15-Dec-2035

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Panama's fiscal setting deteriorated after the global pandemic as a series of shocks and policy weaknesses raised debt levels and triggered a partial loss of its investment grade and weakened its access to markets.** The pandemic drove the fiscal deficit to 10.2 percent of GDP in 2020 amid a 17.6 percent economic contraction. Economic recovery and fiscal adjustment under the Fiscal and Social Responsibility Law (FSRL), helped by one-off revenues, reduced the deficit to 3.9 percent of GDP by 2023, the debt-to-GDP ratio remained 10 percentage points above pre-pandemic levels. Structural weaknesses in the fiscal framework and revenue losses from the closure of Cobre Panama and drought in the Panama Canal reversed this trend. By end-2024, the deficit reached 7.4 percent of GDP and the debt increased by an additional 6 percentage points of GDP. Consequently, Panama's bond spreads widened (100–150 bps above grade peers) and Fitch downgraded Panama to below investment grade (IG) in March 2024. Strengthening fiscal institutions and stabilizing the debt-to-GDP ratios are critical to contain financing pressures.
2. **This, along with structural obstacles to growth, is affecting Panama's ability to attract investment, create jobs and reverse high levels of inequality and unemployment.** Panama sustained high growth, averaging 6 percent, for almost three decades with dynamic job creation and poverty reduction. Growth started decelerating in 2018-19, dragged by lower construction activities and limited productivity gains. While GDP recovered quickly from its sharp contraction in 2020, potential growth is set to be lower and labor markets outcomes weaker than historical levels, with pervasive informality, volatile unemployment, and one of highest inequality in Latin America and the Caribbean (LAC). Poverty rates almost returned to pre-pandemic levels, but weaker growth stalled progress in 2024. To sustain high growth and reap its social dividends, Panama must continue removing barriers to foreign and domestic private investment,

strengthening its comparative advantages beyond fiscal incentives. Robust growth also reinforces macroeconomic resilience, complementing Panama's fiscal consolidation efforts and supporting lower debt-to-GDP ratios.

3. **Panama's macroeconomic framework is adequate for this operation.** The economy grew by an average of 11.5 percent between 2021 and 2023, fully recovering from the pandemic, driven by a dynamic services sector and strong copper exports. While the suspension of Cobre Panama mine activities at the end of 2023 impacted growth in 2024, the economy is projected to return to an average growth rate of 4 percent in the medium term. Panama maintains a strong external position, supported by healthy reserves, robust FDI, and other capital inflows. Inflation remains low. The government is committed to addressing the fiscal pressures that emerged in 2024 and has taken significant steps to comply with the FSRL in 2025. Further reforms, including those supported by the DPL series, are planned to continue fiscal adjustment and stabilize public debt by 2028. Panama's strong track record of macroeconomic management and access to financing, reinforced by this operation, are expected to further support fiscal consolidation over the medium term.

Relationship to CPF

4. **The proposed operation aligns closely with the World Bank Group's (WBG) 2024-2028 Country Partnership Framework (CPF) for Panama (Report No. 184027, discussed February 27, 2024) and WBG priorities.** Pillar 1 and PA6 support CPF Objective #1.2 (improved financial and public investment management), while Pillar 2 advances CPF Objective #1.1 (access to finance and private sector-led job creation), both contributing to inclusive job creation (HLO #1). PA1 and PA7 are expected to enhance climate resilience and mitigation (Objective #3, HLO #3).

C. Proposed Development Objective(s)

5. The DPL supports Panama's efforts to (i) enhance fiscal sustainability and the efficiency of fiscal management; and (ii) mobilize private investment, with emphasis on infrastructure and in natural assets.

Key Results

6. Reforms under pillar one will support a continuous decline in the debt to GDP ratio, higher revenue mobilization, a reduction in the pension system fiscal gap, better targeted social benefits, and deeper domestic public debt market. Reforms under pillar two support Panama's exit from the EU list of non-cooperative jurisdiction, the mobilization of long-term private financing for strategic infrastructure projects, the mobilization of private investment in natural resource management and the expansion of digital services to business and households. This operation, which includes a $600 million IBRD guarantee, and potential complementary MIGA guarantee aim to mobilize up to US$1.15 billion in private finance for Panama's fiscal transition and sustained growth. It also facilitates financing for development (MFD-e) and supports Private Capital Enabling (PCE) reforms, including debt market development, EU grey list exit, sustainable finance, digital services, and Public-Private Partnerships (PPPs).

D. Concept Description

7. **The proposed Development Policy Financing (DPF) supports Panama's efforts to (i) enhance fiscal sustainability and the efficiency of fiscal management; and (ii) mobilize private investment, with emphasis on infrastructure and in natural assets.** This DPF supports Panama at an important juncture as its new administration seeks to deliver a strong reform package to address fiscal, jobs and inequality challenges. Reforms include improved fiscal framework, tax administration, pension system, and debt management, helping bring the debt-to-GDP ratio to a declining path by 2028, while protecting the poor and vulnerable. To facilitate foreign direct investment (FDI) and local investments, these also include efforts to exit the EU list of non-cooperative jurisdiction, increased efficiency and oversight of private financing modalities for infrastructure, operationalization of the national carbon markets, and enhancement of digital service regulations, further reinforcing sustainable and inclusive growth.

8. **The proposed DPL series, including this operation, is closely aligned with Panama's Strategic Plan 2025-2029 (PSP),** which targets high growth and job creation through four main objectives: (i) fostering investment and job creation in key sectors; (ii) expanding opportunities via quality education and basic services; (iii) strengthening institutions and government efficiency; and (iv) promoting environmental sustainability and sound natural resource management. Pillar 1 of this operation supports objective (iii) by strengthening fiscal institutions and promoting more efficient fiscal management. Pillar 2 advances objectives (i) and (iv) by encouraging private investment across various economic sectors, including natural resource management.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. **A preliminary analysis of all Prior Actions suggests that those under Pillar 1—while indirectly supporting long-term poverty reduction through enhanced fiscal sustainability and revenue mobilization—could pose short-term risks to low-income households if not carefully managed.** Fiscal consolidation measures linked to PA#1 may lead to spending cuts in programs that benefit the poor, making it essential for the government to continue prioritizing targeted social spending when making budgetary decisions, as was done in 2025. PA#2 could increase compliance or transition costs for small firms employing low-income individuals, potentially affecting jobs, prices, and the purchasing power of the poor. However, generous VAT exemptions in Panama, which cover most goods consumed by the poor, and the exemption of small businesses from cost associated with the government's electronic invoice app, help mitigate these risks. PA#3 protects the poor by securing sufficient government transfers and revenues to cover and pension for the poor programs. In this regard, it reinforces the already well documented pro-poor nature of the pension system. However, the reform also gradually increases employer contributions which raises the relative cost of formalization, potentially impacting formal wage levels or the prospects for poor individuals to secure formal employment, especially since only 17 percent of the bottom 40 percent are formally employed. These risks can be mitigated through complementary measures that support small firms' transition to formality and through well-targeted social programs. Ongoing analysis is necessary to fully assess the extent and magnitude of these short-term impacts.

Environmental, Forests, and Other Natural Resource Aspects

10. **A preliminary assessment of the matrix of prior actions supported by this operation at Concept stage finds that there are no likely significant environmental effects.** This assessment will be revisited during the DPF preparation process based on the final PAs selected, to identify any likely significantly positive or negative effects, in line with DPF Program Document Guidance (July 2025). If any significant effects are identified, these are likely to be effectively managed through Panama's robust legal and policy framework for managing environmental impacts from investments. This framework is anchored in the 2004 Constitution and the General Law of the Environment (Law 41 of 1998), which provides comprehensive guidelines for both public and private sectors. The Ministry of Environment leads enforcement, with powers strengthened since its elevation to ministerial status in 2015. While national-level enforcement capacity has improved, local implementation remains weak due to resource and technical gaps. Ongoing reforms and capacity-building efforts, including those supported through World Bank technical assistance, aim to address these challenges and ensure effective environmental governance and management.

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APPROVAL

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Note to Task Team: This is the end of document. No further content should be added. ***Delete this note when finalizing the document.***