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PANAMA

EMERGENCY PROGRAM FOR MACROECONOMIC AND FISCAL SUSTAINABILITY

(PN-L1163)

LOAN PROPOSAL

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ABBREVIATIONS

COVID-19	Coronavirus disease 2019
DGCP	Dirección General de Compras Públicas [General Public Procurement Directorate]
DGI	Dirección General de Ingresos [General Revenue Directorate]
FDI	Foreign direct investment
IMF	International Monetary Fund
INEC	Instituto Nacional de Estadística y Censo [National Statistics and Census Institute]
LRSF	Ley de Responsabilidad Social Fiscal [Social and Fiscal Responsibility Law]
MEF	Ministry of Economy and Finance
NFPS	Nonfinancial public sector
RFI	Rapid Financing Instrument
SARS-CoV-2	Severe acute respiratory syndrome coronavirus 2
SDL	Special Development Lending
SDR	Special drawing rights
WHO	World Health Organization

PROJECT SUMMARY

PANAMA
EMERGENCY PROGRAM FOR
MACROECONOMIC AND FISCAL SUSTAINABILITY
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Financial Terms and Conditions				
Borrower			**Flexible Financing Facility**[a]	
Republic of Panama			**Amortization period:**	7 years
Executing agency			**Disbursement period:**	1 year
Ministry of Economy and Finance			**Grace period:**	3 years
Source	**Amount (US$)**	**%**	**Interest rate:**	3-month LIBOR in U.S. dollars, plus/minus the IDB lending spread, plus the variable interest spread for Ordinary Capital resources, plus the fixed premium on the lending spread of 115 basis points[a]
IDB (Ordinary Capital):	400 million	100%	**Front-end fee:**	1% of the loan principal, payable within 30 days of the entry into effect of the contract[a]
			Credit fee:	0.75%[a]
Total:	400 million	100%	**Weighted average life:**	5 years
			Currency of approval:	U.S. dollars

Project at a Glance
Project objective/description: The program objective is to support the fiscal policies and actions pursued by the Government of Panama to confront the COVID-19 pandemic with a view to ensuring continued macroeconomic and fiscal stability. The specific objectives are: (i) to implement fiscal adjustments and reduce the fiscal deficit; and (ii) to maintain a stable balance of payments. The program is aligned with the Rapid Financing Instrument (RFI) of the International Monetary Fund (IMF), approved on 15 April 2020. The budgetary support provided through this loan under the Special Development Lending (SDL) category will contribute to finance efforts to contain the health crisis, mitigate its impact on vulnerable households, and promote policies to reduce its effect on the economy in the short term. The program is structured as a single operation to be disbursed in a single tranche.
Commitments and disbursement of the loan proceeds: The sole disbursement of the loan proceeds will be made in accordance with the terms established in the Loan Contract to be signed between the borrower and the Bank, including the provision requiring that proceeds under the RFI financing arrangement approved by the IMF are being or have been disbursed. The Commitments Matrix (Annex II) identifies the commitments made by the Government of Panama and contained in its Letter of Intent to the IMF, dated 7 April 2020, which forms an integral part of the IMF report, Request for Purchase Under the Rapid Financing Instrument, approved by the IMF Executive Board. These commitments are also stated in the Policy Letter sent by the Government of Panama on 27 May 2020 and will be reflected in the abovementioned Loan Contract (see paragraph 4.2).
Exceptions to Bank policies: None.

Strategic Alignment						
Challenges:[b]	SI	☐	PI	☐	EI	☐
Crosscutting themes:[c]	GD	☐	CC	☐	IC	☒

[a] Under the Special Development Lending category (document AB-3134) and its Operational Guidelines (document GN-2031-17), this operation will be documented under the Flexible Financing Facility with limited debt management options. The borrower has the option of requesting currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests. The applicable amortization schedule for this loan will consist of equal, six-monthly installments that begin to accrue at the end of the grace period.

[b] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

[c] GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

1.1 **Macroeconomic background.** Panama had one of the world's highest growth rates in 2004-2017 (annual average of 7.1% in real terms), well above the Latin American and Caribbean annual average of 3% in that period. Panama along with Chile have the highest income per capita in Latin America and the Caribbean, joining the ranks of high-income countries. The Panama Canal expansion (concluded in 2016) and large-scale public works served as catalysts for economic growth, but the greatest contributor was private investment (construction and real estate), which currently accounts for around 32% of GDP.

1.2 In addition to this notable growth, Panama also strengthened its macroeconomic framework during that period. Its inflation rate was among the lowest in the region, the nonfinancial public sector (NFPS) deficit remained moderate, and the debt-to-GDP ratio fell from 79.9% in the 1990s to an average of 35.5% in 2015-2018. The unemployment rate, meanwhile, fell from an average of 14.1% in the 1990s to 5.7% in 2015-2018. The financial system has also remained healthy, as measured by standard indicators of liquidity, returns, and arrears.

1.3 Panama's economy slowed significantly in 2018 and 2019, due mainly to a slump in construction activity,[1] posting growth rates of 3.7% and 3%, respectively, for a 10-year low.[2] Because Panama has a dollarized economy, fiscal policy is the only means of absorbing external shocks and therefore is of heightened importance. Due to the economic slowdown, the NFPS deficit[3] rose from an average of 2.2% of GDP in 2015-2017 to 3.2% and 3.1% in 2018 and 2019, making it necessary to amend the Social and Fiscal Responsibility Law (LRSF) to keep the deficit within the established limits.[4] The widening fiscal deficit is primarily due to a fall in tax revenues from 9.7% of GDP in 2016 to 8.2% in 2019[5] and a rise in primary expenditure from 13.5% of GDP to 14.3% in the same period.[6] Public debt has also risen from 35.5% of GDP in 2015 to 41% in 2019 (see Table 1) but remains at long-run sustainable levels.

1.4 Panama's weak point during the years of strong economic growth was the external sector. The trade balance has made a negative contribution to GDP growth of about 10% in the past decade, due mainly to a decline in re-exports from the Colón Free Zone and in nationwide exports (two percentage points of GDP), although copper mining was expected to improve this situation, starting in 2020.[7] The current account deficit is substantial at about 8% of GDP in recent years. Most of this

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[1] Due to completion of the canal expansion and of the Panama City metro system.

[2] Source: International Monetary Fund (IMF) (April 2020).

[3] Excluding the Panama Canal Authority.

[4] Panama's LRSF was enacted in 2009 and has been amended multiple times, including twice in the past two years, to raise deficit limits and identify new adjustment paths.

[5] Panama and Guatemala currently have the lowest tax revenues in the region.

[6] Data from 2019 are preliminary (IMF, 2020).

[7] The mining industry began operations in February 2019. The first 31,200 tons of copper were exported to China in June 2019. The economic expectation is that the mining sector will export 320,000 tons per year, or approximately 3% of GDP. "Proyecto minero posicionará a Panamá como el productor de cobre número 14 del mundo" (source: El Capital Financiero, 17 June 2019. Panama City, Panama).

deficit has been financed by foreign direct investment (FDI), as Panama is now among the world's leading recipients of FDI relative to GDP. However, most of this FDI (about 75% in the past decade, although this figure has declined in the last two years) consists of reinvested earnings, which do not necessarily increase the country's productive capacity. The current account deficit of 5.2% of GDP in 2019 was the lowest since 2009.[8] FDI has averaged 9% of GDP over the past 10 years and has financed all of the current account (103.5% on average). FDI was 7.2% of GDP in 2019, or 138.1% of the current account deficit. For 2020, however, the IMF is projecting that the current account deficit will deteriorate to 6.8% of GDP, and FDI will be 4.5% of GDP, i.e., for the first time in many years, FDI will fall well short of financing the current account deficit.

Table 1. Selected economic indicators, 2015-2019

	2015	2016	2017	2018	2019
Real GDP growth (%)	5.7	5.0	5.6	3.7	3.0
Unemployment (% of economically active population)	5.1	5.5	6.1	6.0	7.1
Inflation (annual average, %)	0.3	1.5	0.5	0.2	-0.1
Total revenue (% of GDP)*	19.7	20.1	20.0	19.7	18.4
Tax revenue (% of GDP)	9.3	9.7	9.2	9.2	8.2
Total expenditure (% of GDP)*	22.1	22.1	22.2	22.9	21.5
Primary expenditure (% of GDP)*	13.6	13.5	13.6	13.7	14.3
Fiscal balance (% of GDP)*	-2.4	-2.0	-2.2	-3.2	-3.1
Fiscal balance, including the Panama Canal Authority	-3.2	-2.2	-2.2	-2.9	-2.6
NFPS debt (% of GDP)	35.5	34.8	34.8	36.8	41.0
Current account balance (% of GDP)	-9.0	-7.8	-5.9	-8.2	-5.2

Sources: National Statistics and Census Institute (INEC), Ministry of Economy and Finance, and IMF.

* Excludes the Panama Canal Authority.

p: Preliminary data.

1.5 The initial economic impact of coronavirus disease 2019 (COVID-19) has been significant. In fiscal terms, it has led to a 42% decline in direct revenue (corporate income tax, payroll tax) and a 64% drop in indirect tax revenue (tax on transfers of movable goods and services) (specific taxes and tariffs) with respect to April 2019. Tax revenue fell 24% year-on-year from 30 April 2019. In all, current revenue as of 30 April 2020, including tax and nontax revenue, declined 20% on a cumulative year-on-year basis.[9] Monthly tax receipts are tied to the preceding month's economic activity, meaning that the figures for May, which will reflect activity from April, are expected to be even more troubling, since they will reflect the full impact of the government's measures to prevent the spread of the virus. The drop in

[8] It should be noted, however, that errors and omissions represented 1.9% of GDP, and significant corrections between Panama's provisional and final data are common and typically result in an upward revision of the current deficit.

[9] General Revenue Directorate (DGI). Ministry of Economy and Finance. May 2020. Panama City, Panama.

revenue has been accompanied by a shedding of formal-sector jobs,[10] as is better reflected in declining contributions to the Social Security Fund. Although these contributions were already in decline vis-à-vis projected revenues for January, February, and March 2020 (6%, 13%, and 19%, respectively), the decline through April was 36%.[11] In addition to the loss of formal-sector jobs, the halting of economic activity in the informal sector makes it more difficult to fiscally manage the health emergency. Lower tax revenue, higher unemployment,[12] and their impact on the country's borrowing are reflected in the observation on the latest risk rating update by Moody's on 15 April 2020. Moody's noted Panama's economic strength as a service economy and the ongoing, albeit reduced, flow of revenue from the canal, but also emphasized the following fiscal risks as considerations in the wake of the COVID-19 crisis: (i) insufficient fiscal strengthening, causing an increase in debt levels and in the percentage of revenues used for interest payments;[13] (ii) inability of the government to comply with fiscal rules; and (iii) low tax revenue intake and materialization of contingent liabilities, including those related to social security, resulting in larger deficits and higher public debt.[14]

1.6 **The COVID-19 pandemic and the health crisis.** The severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), which causes COVID-19, was first detected in China in late 2019 and spread rapidly to the rest of the world. On 11 March 2020, the World Health Organization (WHO) declared the disease a pandemic, and as of 11 May 2020 there were more than four million confirmed cases and over 278,000 deaths related to COVID-19 worldwide.[15] Although the spread of SARS-CoV-2 in Latin America and the Caribbean began later than in Asia and Europe, the number of cases in the region has also increased rapidly. By 21 April 2020, the number of confirmed infections in Latin America and the Caribbean had reached 286,919, and the number of deaths was 15,496,[16] although these figures will soon be out of date.

1.7 COVID-19 is a highly contagious disease.[17] On average, recorded cases in a country rise daily by 33%.[18] This high rate of contagion leads to spikes that can overwhelm the capacity of health systems, since sick patients require specialized medical care. To keep this from happening, social distancing and isolation have

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10 Executive Decree 81, dated 20 March 2020, states that employee contracts of businesses that have ceased operations are deemed suspended as of the date on which the closure was announced. This status must be authorized by the Ministry of Labor and Workforce Development. Suspension of the employment contract does not entail termination or relieve the parties of their existing obligations pursuant to the contract, nor does it affect employee seniority. Workers covered by this measure will be included in the beneficiary lists of subsidy programs implemented by the executive branch to mitigate the loss of regular income.

11 "CSS plantea vender títulos de valores para afrontar la crisis del IVM tras el COVID-19." Metro Libre. 9 May 2020. Panama City, Panama.

12 Some 170,000 employment contracts have been suspended since stay-at-home orders have been in effect. This equates to 9% of employed workers and more than doubles the unemployment rate (from 7.4% to 16.1%).

13 Interest on debt was 9.1% of revenues in 2018, but Moody's projects this figure to rise to 12.8% in 2020 and 12.4% in 2021.

14 Moody's Investors Service. "Government of Panama – Baaa1 Stable." 15 April 2020.

15 World Health Organization. Situation Report No. 112.

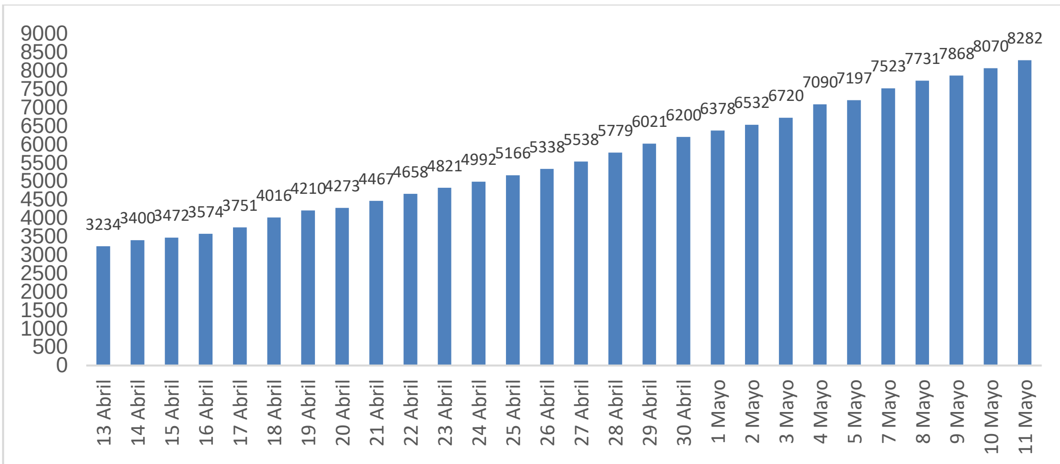
16 Idem.

17 COVID-19 can be spread from person to person through respiratory secretions and direct contact.

18 This means that the number of new infections more than doubles approximately every three days if public health measures are not taken to contain the spread (Financial Times, 2020).

become essential measures in the public health response, since they slow the transmission of COVID-19[19] and delay demand for medical services.[20] Implementing this type of measure is particularly important in Latin America and the Caribbean, considering that a recent WHO analysis shows that most countries of the region are unprepared to manage pandemics. As of 11 May 2020, Panama had 8,282 confirmed cases and 237 deaths.[21]

Figure 1. Confirmed COVID-19 cases in Panama



Source: World Health Organization (WHO).

1.8 **Macroeconomic repercussions.** The COVID-19 pandemic is inflicting enormous—and growing—human costs throughout the world. To save lives and help healthcare systems cope with this situation, widespread lockdowns, stay-at-home restrictions, and closures have been necessary to curb the spread of the virus. The health crisis is therefore having a serious impact on economic activity. The world economy is projected to contract by -3% due to the pandemic in 2020, far worse than the contraction during the 2008-2009 financial crisis. Assuming that the pandemic abates in the second half of 2020 and containment measures can be gradually lifted, the world economy is projected to grow 5.8% in 2021, as economic activity returns to normal with policy support (IMF, 2020).

1.9 **Pandemic response actions.** Although social distancing and stay-at-home restrictions may slow the transmission of COVID-19, they have not fully stopped the spread of the disease worldwide. For that reason, countries have had to implement additional health measures. First, to replicate relatively successful experiences like South Korea's, early health sector interventions are needed for mass testing of the population to detect the presence of the virus and trace possible cases of contagion, so they can be isolated. Interventions of this kind have

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[19] Eichenbaum, M.S., Rebelo, S., and Trabandt, M. (2020). The Macroeconomics of Epidemics (No. w26882). National Bureau of Economic Research.

[20] Hellewell J., Abbott S., Gimma A., Bosse N.I., Jarvis C.I., Russell T.W., et al. Feasibility of Controlling COVID-19 Outbreaks by Isolation of Cases and Contacts. Lancet 2020; 8(4):488-496.

[21] World Health Organization. Situation Report No. 112.

proven effective in ending health crises more swiftly.[22] [23] Additionally, the supply of health services must be increased, to treat infected people with serious symptoms. Both types of interventions require physical and financial resources delivered in an urgent and timely manner. Many countries, including several in Latin America and the Caribbean, have been rapidly scaling up public health spending. Paraguay, for example, announced a package of health measures that entails expenditure equivalent to 2.7% of its GDP. Chile and Peru also announced similar packages with approximate costs of 0.65% and 0.25% of their respective GDP.[24]

1.10 In line with this international experience, Panama swiftly adopted urgent measures to confront the pandemic, including the following:

a. **Declaration of a state of emergency** (Cabinet Resolution 11 of 13 March 2020). At a Cabinet meeting, the President of Panama and the Cabinet-level ministers adopted a resolution declaring a state of emergency on 13 March 2020. This resolution: (i) established special procurement procedures for works, goods, and services needed for the national emergency response; (ii) authorized a total of US$50 million for such procurements over a 180-day period; (iii) instructed the Ministry of the Presidency to administer and authorize the line item allocations and transfers pursuant to the law adopting the general budget of the national government; (iv) authorized the Ministry of Economy and Finance (MEF) to seek a waiver, if required, from the National Assembly for the temporary suspension of the financial limits set in Law 34 of 2008; and (v) authorized the Ministry of the Interior via the National Civil Protection System, as well as the Ministry of Public Safety and the relevant safety bodies, to coordinate all matters related to the acceptance and receipt of contributions from humanitarian organizations as part of the COVID-19 response.

b. **Restrictions on movement.** The government adopted measures under Resolution 360 of 30 March 2020 restricting the movement of persons on the basis of their gender and identification numbers (national identity card or passport, depending on whether they are Panamanian or foreign nationals), as a way of preventing the spread of the disease.

c. **Economic response and relief plan.** To confront the imminent economic impact of the COVID-19 pandemic, the government is carrying out measures included in its anticrisis economic plan, including the following:

   (i) **Law 139 of 2 April 2020.** This law: (i) calls for the dynamic restructuring of the 2020 budget to redirect all possible resources toward the needs and priorities arising from the COVID-19 crisis and to make the necessary expenditures and line item transfers to assist persons, families, and businesses affected by the COVID-19 crisis; and (ii) makes the resources of the Panama Savings Fund available to the national government, through the MEF, to finance transfers to groups

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22 A recent study on the impact of the 1918 influenza pandemic found that cities that acted earlier and more aggressively grew faster once the pandemic was over. Correia S., Luck S., and Verner E. Pandemics Depress the Economy, Public Health Interventions Do Not: Evidence from the 1918 Flu.

23 Prem K., Liu Y., Russell T.W. et al. The Effect of Control Strategies to Reduce Social Mixing on Outcomes of the COVID-19 Epidemic in Wuhan, China: A Modelling Study. Lancet Public Health 2020 (published online on 25 March).

24 IDB Fiscal Management Division (FMM) (2020). FMM Technical Note: Fiscal Measures to Reduce the Impact of COVID-19.

who are vulnerable as a result of the COVID-19 emergency and to finance up to US$300 million in current health spending and other expenditure. Resources used in this way will be repaid to the Panama Savings Fund within five years.

(ii) **“Protégete Panamá” Plan.** The national government, acting through the Ministry of Health, is implementing the “Protégete Panamá” Plan to provide six layers of safety aimed at preventing the spread of COVID-19: (i) the “Stay Home” campaign, to encourage people to remain in their homes; (ii) the ROSA Program, to provide online health screenings for people with respiratory symptoms through this platform or the 1-6-9 hotline; (iii) the installation of modules to treat patients with respiratory symptoms at polycenters, health centers, polyclinics, and the hospital complex; (iv) individual case notification, to notify people of their test results at home and, if necessary in the event of a positive test result, to transport the person to the hospital; (v) construction of a new “modular hospital,” which will have 200 beds and all necessary equipment and supplies to treat COVID-19 patients who are gravely ill; and (vi) the “recovery phase,” for which hotels have made more than 2,000 beds available to the Ministry of Health for patients to complete their recovery.

(iii) **“Panamá Solidario” Plan.** This plan, with an initial US$50 million in funding, seeks to mitigate the impact of the pandemic and ensure that Panamanians affected by the health crisis can obtain basic necessities. The plan targets people whose employment contracts have been temporarily suspended by their employers (Executive Decree 81 of 20 March 2020), people living in multidimensional poverty, vulnerable families, people living in hard-to-reach areas, and people working in the informal sector. Resources will be increased each week.[25] As of April, a tool is in place to allow Panamanians to use their national identity card as a debit card (with a maximum amount per person), and commercial establishments can use an app to receive the funds from the government.

(iv) **Sovereign bond issues.** In March, US$2.5 billion in bonds were issued with a maturity of 2056 and an interest rate of 4.5%. Demand for these bonds was more than three times higher than the issued amount.

(v) **Tax-related measures.** These include: (i) extending the tax amnesty on interest, fees, and fines until 30 June 2020; (ii) extending the filing deadline for 2019 income tax returns until 31 May 2020 and offering payment arrangements for various taxes until 31 December 2020; (iii) paying tax refunds owed to taxpayers over the coming months; (iv) extending by one year the tax exemption for microenterprises and small businesses registered with the Micro, Small, and Medium-sized Enterprise Authority; and (v) making other regulatory adjustments to support microenterprises that have outstanding business loans for suspension of monthly note payments.

[25] According to the MEF’s letter of intent to the IMF, the “Panamá Solidario” Fund was originally to have US$428 million. This original amount, however, may increase depending how long the stay-at-home restrictions remain in effect and how long it takes to return to “new normal.”

(vi) **Banking measures.** Measures were taken to preserve the stability of the financial system and mitigate the fallout of the COVID-19 pandemic for the national banking system. These measures include: (i) establishment of the "modified loan" modality by the Superintendency of Banks of Panama, to adjust clients' payment obligations and guard against a downgrading of their credit; (ii) authorization for banks to use dynamic provisioning, or a "countercyclical cushion," in periods of slower economic growth such as the current one; (iii) announcement by Caja de Ahorros of a 90-day extension on payments of principal, interest; and (iv) contributions to the Special Interest Compensation Fund for more than 60,000 lines of credit, mortgages, and personal loans.

(vii) **Social support measures.** Executive Order 152, approved on 4 May 2020, includes special social measures, such as the temporary suspension of public utility payments, in response to the national state of emergency. Payments for electricity, landline telephone, cellphone, and Internet service are suspended for four months starting on 1 March, after which payments will resume on a prorated basis for three years. The beneficiaries are: (i) people whose household income is less than 2,000 balboas; (ii) people whose household income has declined; (iii) people whose employment contracts have been suspended; (iv) people who have been laid off or are otherwise out of work due to the declaration of national emergency; and (v) retirees and pensioners. Article 2 of Law 287 was also amended with the consent of the Panama Banking Association to extend until 31 December a moratorium on mortgages (residential loans), personal loans, loans to small and medium-sized enterprises, loans to the agriculture sector, business loans, loans to the transportation sector, vehicle loans, and credit card payments. The Superintendency of Banks issued Resolution 2-2020 allowing modification of the original terms of business and consumer loans to provide economic relief for customers whose ability to pay has been impacted by COVID-19.

1.11 From a regional perspective, efforts to control the spread of the disease have achieved positive outcomes. Panama, however, has the highest case count in Central America with 8,282 confirmed cases as of 11 May 2020. This is largely a result of Panama's privileged position as an international hub for air and sea traffic for all of the Americas, as well as the fact that Panama, more than any other Central American country, has aggressively tested for the disease[26] and sought to identify hotspots of community transmission.

1.12 **Financing of the emergency response.** Although the Government of Panama has been increasing health spending in recent years (from 2.4% of GDP in 2018 to a budgeted 2.7% in 2020), the pandemic emergency response measures will cost approximately 3.5% of GDP. The National Assembly passed emergency measures allowing the government to submit a temporary amendment to the LRSF that would waive the fiscal deficit ceiling for 2020.[27] To finance the higher fiscal

[26] As of 13 April, 15,567 tests had been done. Panama has the highest numbers of reported cases and deaths in Central America.

[27] Law 139 of 2 April 2020. The government plans to submit a bill to the National Assembly to temporarily suspend the LRSF due to the emergency.

deficit (estimated at 6.6% of GDP) and implement its pandemic response measures, the government plans to resort to increased public borrowing in 2020 (see Table 2). In addition to the bond issues (see paragraph 1.10), Panama is expected to seek additional resources from multilateral banks, to bridge the financing gap. All told, the use of these sources of financing is expected to increase Panama's public debt from 41% of GDP in 2019 to around 48% in 2020.

Table 2. Identified general budgetary support

Source	Amount (US$ millions)	Status
Bond issues on the international market[28]	2,500	Completed
World Bank	500	In preparation (single-tranche programmatic loan)
IMF Rapid Financing Instrument (RFI)	515	Approved
Inter-American Development Bank	400	In preparation
Development Bank of Latin America (CAF)	350	Approved (COVID-19 regional contingency line)
Total	**4,265**	**6.6% of GDP**

1.13 According to the national government, financing will be channeled to the single account and distributed to the various budget line items for needs related to the health crisis, food security, and normal current expenditures that have been defunded as part of the fiscal fallout of the health crisis. The IMF funds will be added to a liquidity fund at the National Bank of Panama, which will serve as a contingency line for the banking system.[29]

B. Program for Macroeconomic and Fiscal Sustainability

1.14 On 15 April 2020, the IMF approved the use of the Rapid Financing Instrument (RFI) for Panama in an amount equivalent to 100% of its quota: 376.8 million special drawing rights (SDR), or approximately US$515 million. The RFI provides rapid, low-access financial assistance to member countries facing an urgent balance of payments need, without the need to have a full-fledged program in place. A member country requesting RFI assistance is required to cooperate with the IMF to make efforts to solve its balance of payment difficulties and to describe the general economic policies it proposes to follow. The RFI can provide support for a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, conflict and postconflict situations, and emergencies resulting from fragility.

1.15 Unlike other IMF instruments, the RFI does not require structural measures to be adopted in order to trigger the disbursement of funds. The rationale is based on an analysis of urgent balance of payment needs resulting from different types of emergencies, as well as a public debt sustainability analysis. If the debt is deemed to be unsustainable, the borrower should also undertake a commitment to adopt subsequent measures to return the country to a path of fiscal sustainability. The following IMF estimates support the approval of the RFI in Panama:[30]

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[28] Including US$300 million from the Panama Savings Fund.

[29] Source: MEF.

[30] All estimates in this section are based on IMF projections.

a. **Economic contraction.** The expected total economic cost of the pandemic, calculated as the cumulative loss of production in 2020-2021 as growth falls short of prepandemic projections, is around US$5.547 billion, equivalent to around 8.3% of GDP in 2019. This calculation envisages an expected economic contraction of 2% in 2020, followed by a 4% recovery in 2021[31] and a return to the previously projected path of 5% annual GDP growth from 2022 onward. Unemployment, as noted above, is expected to rise sharply in the short term, as are poverty and inequality.[32]

b. **Impact on balance of payments.** The COVID-19 crisis will also have a notable impact on Panama's balance of payments, one of the weakest points of its economy. This negative impact will be conveyed primarily through: (i) net re-exports from the Colón Free Zone (negative impact of US$500 million); (ii) tourism revenues (US$1.7 billion); (iii) Canal revenues (US$700 million); (iv) FDI (US$2.3 billion); and (v) portfolio investment (US$700 million). All told, the net negative impact on the balance of payments for 2020 is expected to be US$3.7 billion (5.7% of GDP in 2019).[33]

c. **Fiscal impact.** The government's gross financing needs for 2020 as a result of the pandemic are expected to reach 6.6% of GDP (see Table 2). The IMF projects that the NFPS deficit will rise from 3.1% of GDP in 2019 to 6.25% in 2020 (the pre-COVID-19 projection was 2.75% of GDP). Fiscal accounts will deteriorate as a result of a decline in NFPS revenue from 18.4% of GDP in 2019 to 16.7% in 2020, due mainly to Canal revenue falling from 2.6% to 1.1% of GDP, and primary current expenditure rising from 14.3% to 16.2% of GDP. Capital expenditure is also projected to fall from 5.3% to 4.5% of GDP in the same period, as part of budgetary restructuring to mitigate the negative impact of the crisis on the fiscal accounts.

1.16 **Measures to restore fiscal sustainability post-COVID-19.** The government's commitment to gradually return to the path charted by the LRSF once the pandemic is over is contained in the Letter of Intent for the IMF arrangement, dated 7 April 2020. As noted above, the deficit is expected to rise to 6.25% of GDP in 2020 but then fall to 2.5% of GDP[34] as economic activity resumes. The IMF also expects the gross debt to rise from 41% of GDP in 2019 to 48.5% in 2020, before settling back to 44.6% by 2025.

II. ELIGIBILITY CRITERIA

2.1 **Eligibility criteria for SDL loan.** The Special Development Lending (SDL) category, established in the Proposal to Create a Special Development Lending Category (document AB-3134), approved by the Board of Governors on 30 June 2017 pursuant to Resolution AG-9/16, and its Special Development Lending Category Operational Guidelines (document GN-2031-17), is a budgetary support

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[31] Importantly, the IMF made these projections prior to two significant measures that have halted economic activity: closure of the copper mine on 7 April after a number of COVID-19 cases appeared, and extension of the construction stoppage until the end of May. These two developments mean the contraction in 2020 will foreseeably be greater than projected by the IMF.

[32] Panama has one of the highest levels of inequality (Gini coefficient: 49).

[33] Source: IMF, RFI, balance of payments table, page 5 of the RFI document.

[34] This target was set and approved by the National Assembly in 2019.

lending instrument for dealing with macroeconomic crises[35] and preserving social gains and economic growth in countries of the region facing a macroeconomic crisis. The Government of Panama meets the eligibility criteria for this loan (document AB-3134), inasmuch as Panama: (i) is experiencing a macroeconomic crisis (see Section I); and (ii) has a lending arrangement approved by the IMF. The RFI arrangement was approved by the IMF on 15 April 2020 in the amount of US$515 million, equivalent to 100% of the country's SDR quota. The SDL operation amount (US$400 million) falls within the limit of 2% of the country's GDP or a maximum of US$500 million.[36]

2.2 The Bank financing will be disbursed to, and executed by, the Ministry of Economy and Finance (MEF). As described in paragraph 1.12 above, the expenditures related to this financing are aligned with the areas of support envisaged for SDL operations in the respective operational guidelines (document GN-2031-17), particularly: (i) protect funding for social programs that benefit the poor; and (ii) support new efforts to mitigate the effects of the crisis on the poor and vulnerable.

2.3 The IMF's Rapid Financing Instrument (RFI) does not include a matrix of prior actions but does require the country to commit to a series of measures in a letter of intent describing pledges for the restoration macroeconomic and fiscal stability, as well as a memorandum of understanding with the contractual terms of the financing. To ensure that the IMF instrument and this program are consistent, the Commitments Matrix reflects the country commitments contained in the letter of intent as a condition for disbursement.

2.4 **The Bank's operational work and technical support in the country.** For several years, the Bank has supported and promoted the process of strengthening public finances in Panama. The Program to Strengthen Fiscal Policy and Tax Equity (loan 2669/OC-PN) supported the development and implementation of the e-Tax 2.0 tax administration management solution, which enhanced digital processes in tax administration and improved communication with taxpayers. Through economic and sector work operation RG-1541, the Bank supported the MEF's General Revenue Directorate (DGI) in a pilot project to update the taxpayer rolls and develop taxpayer risk profiles based on sales volume and taxes owed, and also supported the DGI in developing criteria to identify the largest taxpayers accounting for 70% of tax receipts. The Bank also supported the analytical work to determine these major taxpayers' degree of compliance in submitting their tax returns and paying taxes. In late 2019, the Bank and the IMF jointly implemented the Tax Administration Diagnostic Assessment Tool. The Bank has also provided technical support for public procurement and quality of expenditure. Studies conducted in conjunction with the General Public Procurement Directorate (DGCP) show that a lack of coordination between the budget, treasury, and procurement authorities leads to failures to pay providers, high procurement costs for goods and services, and a high percentage of procurement processes with no successful bidders, which encourages single-source selection and limits quality of expenditure. In response to these studies, the Bank is launching a public policy dialogue on expenditure quality and allocative efficiency, to support the MEF in

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[35] Defined as a situation in which a country potentially lacks sufficient access to finance on affordable terms to meet its international obligations (document GN-2031-17).

[36] Whichever is less. This limit applies to fresh funds per country (see paragraph 4.6 of document AB-3134).

developing an institutional framework that fosters increased competition and participation by small businesses in public procurement processes, better targeting of social spending toward vulnerable groups, and better management of public investment expenditure. As a result of these efforts, the Bank is well positioned to support the Government of Panama in its post-pandemic fiscal consolidation process.

2.5 **The Bank's experience in the region and lessons learned.** The Bank has extensive experience assisting the countries of the region in overcoming macroeconomic crises and fiscal imbalances similar to those faced by Panama. For example, the SDL approved for the Government of Barbados in 2018 (loan 4656/OC-BA) supported: (i) the restoration of macroeconomic stability; (ii) fiscal adjustments to promote sustainable fiscal balance in the short and medium term; and (iii) protection of social spending to preserve social gains. The SDL approved for Ecuador in 2019 (loan 4771/OC-EC) supported: (i) macroeconomic stability; (ii) the restoration of fiscal sustainability; (iii) strengthening of the central bank's institutional structure; and (iv) safeguarding of social spending to support the most vulnerable population. Both operations were approved in conjunction with IMF macrofiscal support. In 2014, moreover, the Bank approved the Development Sustainability Contingent Credit Line in Ecuador (loan 3415/OC-EC), which offered liquidity to withstand the external shock caused by the oil price drop.

2.6 Many lessons learned from this experience are helpful during this worldwide crisis that is unprecedented in the past 100 years, including the following: (i) the Bank's SDL instrument is an effective vehicle for channeling budgetary support resources swiftly in crisis situations; (ii) its main value-added, other than financial, is that it leverages and strengthens the IMF program and adds a layer of technical support to help the government meet its agreed commitments; and (iii) technical cooperation (TC) assistance and ongoing dialogue with the authorities to support fulfillment of the commitments with the IMF play an important role.

2.7 **Coordination with other donors.** Since the SDL instrument requires that an IMF program be approved and disbursing funds, ongoing coordination was necessary in the preparation of this operation with the IMF, with which the Bank has developed a joint strategy prior to the COVID-19 pandemic in the area of modernization of the DGI and development of fiscal institutions better suited to Panama's level of development. The Bank is also coordinating with the World Bank on the modernization of fiscal institutions, tax policy, public procurement, and the financial administration system. This program provides budgetary support in the amount of US$500 million.[37] The Bank is also coordinating activities with the Development Bank of Latin America (CAF).[38] This coordination will yield benefits for the post-COVID-19 recovery, which will be supported by a fiscal consolidation process (see paragraph 1.12).

2.8 **Complementarity with other Bank operations.** The Bank is preparing a global credit program in the amount of US$150 million to safeguard the productive sector and employment as part of the COVID-19 emergency response and economic recovery measures. This project seeks to support the recovery of micro, small, and medium-sized enterprises by injecting liquidity for first- and second-tier operations through the National Bank of Panama. The targeted sectors include agriculture,

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[37] See Table 2, Identified general financing.

[38] See Table 2, Identified general financing.

trade, and services. These funds will be used to help tide businesses over and restore the country's productive fabric. This operation complements the SDL because it will help the financial system provide assistance to the most vulnerable businesses, while the SDL supports the fiscal response, given the costs associated with managing the pandemic and offsetting the loss of tax and nontax revenues. This proposed program also complements the operation, now in preparation, for the program for digital transformation of tax management in Panama with its main objective of making tax revenue intake more efficient. The specific objective is to make tax oversight more effective and encourage voluntary compliance by taxpayers. The MEF has confirmed the importance of this operation, since digital modernization will support the post-pandemic fiscal strengthening process. The Bank is also preparing a set of regional TC operations to assist countries in the post-pandemic economic and fiscal recovery. These TCs, each with a subregional focus, will help member countries leverage each other's solutions and will offer specific technical assistance to strengthen fiscal and institutional management. Panama also has a TC in preparation to support institutional, organizational, and analytical development in order to develop and leverage digital solutions and the use of data analytics at the DGI.

2.9 In terms of knowledge and dialogue, the Bank is currently working with the MEF and the DGI on a program to maintain business continuity digitally for tax collection and taxpayer services. As part of its dialogue with the MEF prior to the COVID-19 emergency, the Bank has laid the groundwork for post-pandemic support to help identify sources of floating debt and their impact on payments to providers. Moreover, the fiscal strengthening process will require better targeting of current expenditures, subsidies, and transfers. The Bank and the MEF have agreed that these studies on expenditure quality will be supported. The Bank is also launching a new technical support initiative (see paragraph 2.4) to improve management of public and public-private investment.

2.10 **Strategic alignment.** The program is consistent with the Update to the Institutional Strategy (document AB-3190-2) and aligned with the crosscutting area of institutional capacity and rule of law through institution-strengthening for fiscal sustainability. The program will also contribute to the Corporate Results Framework 2020-2023 (document GN-2727-12) by increasing tax revenue as a percentage of GDP. It is aligned with the public sector management and financing and macrofiscal management areas of the Sector Strategy: Institutions for Growth and Social Welfare (document GN-2587-2) and is consistent with the Fiscal Policy and Management Sector Framework Document (document GN-2831-9), which emphasizes the importance of institution-strengthening to improve the quality of public expenditure, as well as fiscal equity and social inclusion. This program is aligned with the IDB Country Strategy with Panama 2015-2019 (document GN-2838), since its expected outcomes are directly related to the dialogue area of macrofinancial and fiscal stability.

A. Objectives, components, and cost

2.11 **Program objective.** The program objective is to support the fiscal policies and actions pursued by the Government of Panama to confront the COVID-19 pandemic with a view to ensuring continued macroeconomic and fiscal stability. The specific objectives are: (i) to implement fiscal adjustments and reduce the fiscal deficit; and (ii) to maintain a stable balance of payments.

2.12 The program is aligned with the IMF's Rapid Financing Instrument (RFI), approved on 15 April 2020. The budgetary support provided through this loan under the Special Development Lending (SDL) category will contribute to finance efforts to contain the health crisis, mitigate its impact on vulnerable households, and promote policies to reduce its effect on the economy in the short term. The program is structured as a single operation to be disbursed in a single tranche.

2.13 In line with the IMF's RFI, the paragraphs below describe the specific commitments assumed by the Government of Panama under the components of the proposed program, as reflected in the Policy Letter for this operation and the Letter of Intent to the IMF.

2.14 **Component I. Implement fiscal adjustments and reduce the fiscal deficit.** Under this component, the Commitments Matrix calls for the Government of Panama to: (i) ensure that the public debt-to-GDP ratio remains sustainable and on a clear downward path; and (ii) once the pandemic recedes, return to the gradual fiscal adjustments envisaged under the Social and Fiscal Responsibility Law and the strengthening of public financial management to ensure effective oversight over the public sector.

2.15 **Component II. Maintain a stable balance of payments.** Under this component, the Commitments Matrix calls for the Government of Panama to: (i) ensure macroeconomic stability and avoid measures or policies that would exacerbate balance of payment difficulties; (ii) not impose new or intensifying restrictions on the making of payments and transfers for international transactions for balance of payment purposes; and (iii) not enter into bilateral payments arrangements which are inconsistent with Article VIII of the IMF Articles of Agreement.

B. Key results indicators and program beneficiaries

2.16 The expected impact of the program is to contribute to a reduction of Panama's public debt. The impact indicator will be the debt-to-GDP ratio, which is expected to decline from 48.5% in 2020 to 44.6% in 2025. For the first specific objective of implementing fiscal adjustments and reducing the fiscal deficit, the outcome indicators are: (i) NFPS overall fiscal balance as a percentage of GDP; and (ii) NFPS primary balance as a percentage of GDP.[39] For the second specific objective of maintaining a stable balance of payments, the outcome indicator will be the current account deficit as a percentage of GDP.

2.17 The program will benefit:

a. The Government of Panama, by: (i) securing fast-disbursing resources to finance current expenditures that were defunded due to the fall in tax revenue intake; and (ii) creating a medium-term fiscal policy strategic framework for restoring fiscal sustainability.

b. The general public, by financing income-protection programs for families and businesses and, in the medium term, actions to maintain macroeconomic stability.

c. The private sector, by promoting its effective participation in decision-making processes for investments related to economic recovery and, in the medium term, actions to maintain macroeconomic stability.

[39] For details on how the outcome indicators are calculated, see the Results Matrix.

III. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

3.1 This Special Development Lending (SDL) loan will be financed with the Bank's Ordinary Capital resources. However, it is not part of the Bank's regular lending program approved in the Long-term Financial Plan, so use of the Bank's enhanced lending capacity is proposed for financing this SDL. The operation has been prepared in coordination with the Rapid Financing Instrument (RFI) approved by the International Monetary Fund (IMF). The single-tranche structure and complementary financing arrangements with the IMF provide a flexible and effective mechanism for supporting the government's emergency measures to mitigate the health and economic impacts of the pandemic. The SDL resources will be disbursed to the government in a single tranche into the bank account designated for such purpose by the Ministry of Economy and Finance (MEF).

3.2 The amount of this program is US$400 million. The following were taken into account to determine the loan amount: (i) the SDL eligibility criteria (see paragraph 2.1); (ii) the size of the package of COVID-19 emergency response measures; (iii) the US$515 million available from the IMF; and (iv) the fiscal and balance of payment shortfalls, the country's debt sustainability, and risk factors (see paragraph 3.3 of the SDL guidelines (document GN-2031-17)). The program will help cover the additional financing needed by the country as a result of the pandemic, estimated at US$4.265 billion for the remainder of 2020, US$250 million of which will be provided by the Bank with the SDL loan (see Table 2).

B. Environmental and social safeguard risks

3.3 Under Directive B.13 of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703), no ex ante impact classification is required for this program. The operation supports the development of policies, regulations, management instruments, and other institutional strengthening actions, so no significant direct impacts on the environment or natural resources are foreseen.

C. Fiduciary risks

3.4 No fiduciary risks have been identified for this program. The loan proceeds will go directly to the MEF to cover financing needs. The executing agency has the necessary financial management instruments and control systems for such purpose. The proceeds will be disbursed upon fulfillment of the conditions stated in the Commitments Matrix, as established the Loan Contract.

D. Other key risks and issues

3.5 Given the uncertainty in the world economy and the length of the pandemic, the potential risks to the operation should be considered, as summarized below.

3.6 **Macroeconomic and fiscal sustainability (medium).** The projected costs of the pandemic used for the fiscal analysis are estimates that may vary significantly if the pandemic lingers,[40] so there is a risk that costs may be higher than expected. Moreover, according to DGI estimates, if the period of slow economic activity associated with the lockdown ends in May, the economy will contract by -2% of GDP, and tax receipts for 2020 would be 6.7% of GDP, a decline of 1.7 percentage points from pre-COVID-19 projections. However, if a new normal is slow to arrive, and if community transmission leads to new outbreaks, there is a risk that the decline in GDP and tax receipts may be larger. To mitigate these risks, and to provide technical support to the MEF for quantifying the fiscal impacts on tax collection, expenditure, and public investment, the Bank is coordinating with the IMF and the World Bank to promote public policies for improved tax revenue intake and quality of expenditure as part of the post-pandemic economic recovery plan. The MEF, acting through the DGI, has requested support for the development of fiscal simulation models for the tax on transfers of movable goods and services (ITBMS) and for a study of the current tax system to identify with technical precision the economic and tax collection impacts of current policy design.

3.7 Importantly, the MEF has reconfirmed that its programming includes the operation for the digital transformation of tax management in Panama (see paragraph 2.8).[41] Meanwhile, the General Budget Directorate has requested technical support to target spending and support vulnerable households more effectively. These studies are strategic at this time, as Panama has made improving the quality of its expenditure policy a priority. The Government of Panama has also authorized the use of dynamic provisioning (US$1.252 billion, or around 2% of GDP) to inject liquidity into the system.

3.8 **Public management and governance (medium).** Although the authorities have made a commitment via the Letter of Intent for the RFI arrangement with the IMF, there are governance risks associated with post-pandemic social demands that could jeopardize the reduction of expenditures and with private-sector resistance to ending the moratorium on interest payments. Although this risk cannot be fully mitigated, the Bank will provide technical assistance through its pandemic response regional technical cooperation operations in priority areas to resume tax revenue collection, improve expenditure quality, and support and promote public investment with a high impact on job creation and a high multiplier impact on the economy, as a way of supporting the fiscal adjustment necessary to regain fiscal balance. Moreover, social expenditure (not the additional spending generated by the pandemic response) is shielded by the government's decision to retain the clause protecting social spending from cutbacks in future budget laws.

IV. Implementation and Management Plan

A. Summary of implementation arrangements

4.1 **Borrower and executing agency.** The borrower will be the Republic of Panama. The executing agency will be the Ministry of Economy and Finance (MEF), which

[40] For example, amid the growing economic and fiscal impacts, eligibility for the "Panamá Solidario" program has been extended to people whose employment contracts have been suspended. This program provides direct support that, depending on the beneficiary's circumstances, can consist of sacks of food (for rural and hard-to-reach areas) or US$80 vouchers (for urban areas)—or, more recently, a US$80 balance that beneficiaries can access by using their national identity card as a debit card for purchases at supermarkets. According to the authorities, the program had reached 1,696,058 beneficiaries as of 4 May 2020.

[41] MEF letter, dated 14 April 2020, requesting the operation.

will be responsible for: (i) providing evidence that the loan disbursement conditions agreed upon by the government and the Bank have been met; (ii) promoting measures to achieve the policy objectives set in the program; and (iii) compiling, maintaining, and providing to the Bank the necessary information, indicators, and parameters for monitoring and evaluation of the program outcomes.

4.2 **Commitments and disbursement of the loan proceeds. The sole disbursement of the loan proceeds will be made in accordance with the terms established in the Loan Contract to be signed between the borrower and the Bank, including the provision requiring that proceeds under the RFI financing arrangement approved by the IMF are being or have been disbursed. The Commitments Matrix (Annex II) identifies the commitments made by the Government of Panama and contained in its Letter of Intent to the IMF, dated 7 April 2020, which forms an integral part of the IMF report, Request for Purchase Under the Rapid Financing Instrument, approved by the IMF Executive Board. These commitments are also stated in the Policy Letter sent by the Government of Panama on 27 May 2020 and will be reflected in the abovementioned Loan Contract.**

B. Summary of arrangements for monitoring results

4.3 **Monitoring.** The borrower and the Bank will meet regularly to monitor the program. IMF staff visits to Panama will be a monitoring instrument. The executing agency will compile and process all data necessary for program monitoring and evaluation. Consulting engagements to verify Results Matrix indicators and Commitments Matrix activities will be financed with IDB administrative funds.

4.4 **Evaluation.** After the close of fiscal year 2025, when the medium-term commitments reflected in the Results Matrix have concluded, the Bank will prepare an evaluation of the agreed indicators and respective targets for this operation, as input for an assessment of the SDL instrument's overall effectiveness.

4.5 **Policy Letter.** The Policy Letter of the Government of Panama, reaffirming its commitment to the macroeconomic framework policies agreed upon with the Bank, is aligned with the program's Commitments Matrix and Results Matrix.

RESULTS MATRIX

Objective:	The program objective is to support the fiscal policies and actions pursued by the Government of Panama to confront the COVID-19 pandemic with a view to ensuring continued macroeconomic and fiscal stability. The specific objectives are: (i) to implement fiscal adjustments and reduce the fiscal deficit; and (ii) to maintain a stable balance of payments.

EXPECTED IMPACT

Indicators	Unit	Baseline 2020[1]	2021	2022	2023	2024	Target 2025	Means of verification
General objective: To support the fiscal policies and actions pursued by the Government of Panama to confront the COVID-19 pandemic with a view to ensuring continued macroeconomic and fiscal stability.								
Total public debt as % of GDP	%	48.5	48.9	47.9	46.7	45.6	44.6	Fiscal close reports of the Ministry of Economy and Finance

EXPECTED OUTCOMES

Indicators	Unit	Baseline 2020[1]	2021	2022	2023	2024	Target 2025	Means of verification
Specific objective 1: To implement fiscal adjustments and reduce the fiscal deficit								
Overall fiscal balance (excluding the Panama Canal Authority) as % of GDP	%	-6.25	-2.5	-2	-2	-2	-2	Fiscal close reports of the Ministry of Economy and Finance
Primary balance (excluding the Panama Canal Authority) as % of GDP	%	-4.2	-0.3	0.1	0	0	-0.1	Fiscal close reports of the Ministry of Economy and Finance
Specific objective 2: To maintain a stable balance of payments								
Current account deficit as % of GDP	%	-6.8	-6	-5.3	-4.8	-4.2	-4.1	Reports of the Office of the Comptroller General

1 The baseline is the projection for year-end 2020 listed in the IMF Macroeconomic Outlook for the Rapid Financing Instrument (RFI). For evaluation purposes, this amount will be updated once the final official data become available.

COMMITMENTS MATRIX[1]

Objective:	The program objective is to support the fiscal policies and actions pursued by the Government of Panama to confront the COVID-19 pandemic with a view to ensuring continued macroeconomic and fiscal stability. The specific objectives are: (i) to implement fiscal adjustments and reduce the fiscal deficit; and (ii) to maintain a stable balance of payments.

Components/ Action area objectives	Commitments
Implement fiscal adjustments and reduce the fiscal deficit	I. Ensure that the public debt-to-GDP ratio remains sustainable and on a clear downward path. II. Once the pandemic recedes, return to the gradual fiscal adjustments envisaged under the Social and Fiscal Responsibility Law and the strengthening of public financial management to ensure effective oversight over the public sector.
Maintain a stable balance of payments	I. Ensure macroeconomic stability and avoid measures or policies that would exacerbate balance of payment difficulties. II. Not impose new or intensifying restrictions on the making of payments and transfers for international transactions for balance of payment purposes. III. Not enter into bilateral payments arrangements which are inconsistent with Article VIII of the IMF Articles of Agreement.

[1] The commitments identified in this matrix are those adopted by the Government of Panama and contained in its Letter of Intent to the IMF, dated 7 April 2020, which forms an integral part of the IMF report, Request for Purchase Under the Rapid Financing Instrument, approved by the IMF Executive Board on 15 April 2020.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/20

Panama. Loan ____/OC-PN to the Republic of Panama
Emergency Program for Macroeconomic
and Fiscal Sustainability

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Panama, as borrower, for the purpose of granting it a financing to cooperate in the execution of the "Emergency Program for Macroeconomic and Fiscal Sustainability". Such financing will be for the amount of up to US$400,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ ____________ 2020)

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