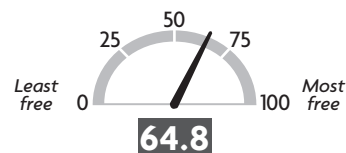


World Rank: **60**

Regional Rank: **13**

PANAMA

Economic Freedom Score



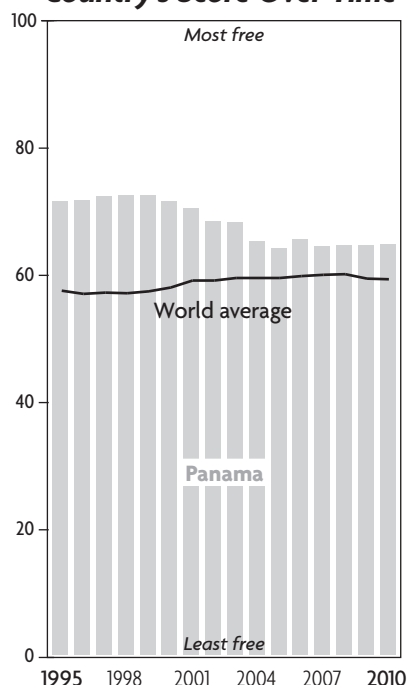
Panama's economic freedom score is 64.8, making its economy the 60th freest in the 2010 *Index*. Its score has increased by 0.1 point since last year, reflecting notable improvements in property rights and freedom from corruption. Panama is ranked 13th out of 29 countries in the South and Central America/Caribbean region, and its overall score is above the world and regional averages.

The Panamanian government has pursued structural reforms to improve the entrepreneurial environment and enhance legal transparency. The economy has benefited from high levels of trade freedom and fiscal freedom, with average annual growth rates of over 9 percent over the past five years. Personal and corporate tax rates are moderate, and the overall tax burden is not high. Relatively prudent and sound public finance management has resulted in a high score for government spending, although public debt remains large.

Despite progress, Panama's overall economic freedom is limited by lingering institutional weaknesses. Despite reform efforts to reduce corruption, the judicial system remains vulnerable to political interference, burdened with backlogged cases, and lax in the enforcement of contracts.

BACKGROUND: Former businessman Ricardo Martinelli of the center-right Alliance for Change coalition was elected president in May 2009 and faces significant challenges in fighting money laundering, narcotics trafficking, and the illegal arms trade and in revitalizing a government-run education system that is not preparing Panama's youth for jobs in banking and the booming services sector, which accounts for 80 percent of the economy. Since 1999, Panama has been solely responsible for operating the Panama Canal and has converted U.S. bases in the former Canal Zone to commercial and tourism uses. The government is now constructing a third set of locks to modernize the canal. The U.S.–Panama Trade Promotion Agreement, if ratified by both governments, could provide a significant boost to economic growth and development.

Country's Score Over Time



Quick Facts

Population: 3.4 million

GDP (PPP): \$42.4 billion

9.2% growth in 2007

9.1% 5-year compound
annual growth

\$12,504 per capita

Unemployment: 5.6%

Inflation (CPI): 8.8%

FDI Inflow: \$2.4 billion

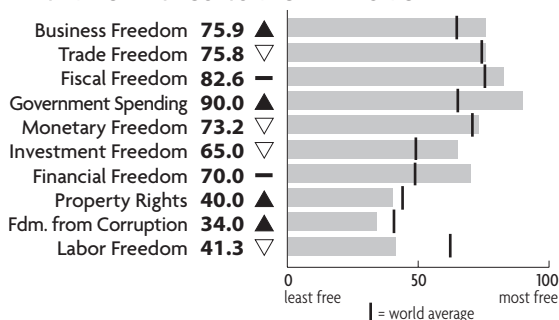
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

PANAMA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 75.9

The overall freedom to start, operate, and close a business is relatively well protected under Panama's regulatory environment. Starting a business takes an average of 12 days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 218 days. Closing a business can be lengthy and costly.

TRADE FREEDOM — 75.8

Panama's weighted average tariff rate was 7.1 percent in 2008. Some import restrictions, services markets access restrictions, high tariffs on agriculture products, import taxes, import licensing or permit requirements, export subsidies, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Ten points were deducted from Panama's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 82.6

Panama has moderate income and corporate tax rates. The top income tax rate is 27 percent. The corporate tax rate is 30 percent of net income or 1.401 percent of gross taxable income, whichever is greater. Other taxes include a value-added tax (VAT), a real estate tax, and a transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 10.7 percent.

GOVERNMENT SPENDING — 90

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 18.3 percent of GDP. Increased spending on public investment and attempts to mitigate high food and fuel prices have driven up total expenditures.

MONETARY FREEDOM — 73.2

Inflation has increased, averaging 7.1 percent between 2006 and 2008. Panama uses the U.S. dollar as its currency. The government controls pharmaceutical and fuel prices, sets prices for a list of basic consumption items, and influences prices through state-owned enterprises and utilities, including electricity and water. Ten points were deducted from Panama's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 65

Foreign investment receives national treatment in most sectors. The government limits foreign ownership in non-franchise retail and media and in other service sectors including medicine, law, and custom brokering. There is no government approval process, but investments must be registered. Some investment-related regulations are burdensome and non-transparent, and judicial processes can be cumbersome and arbitrary. Residents and non-residents may hold foreign exchange accounts. There are no restrictions or controls on payments, transactions, transfers, repatriation of profits, or capital transactions. Foreign investors may not purchase land within 10 kilometers of a national border or on an island. Domestic and foreign investors may lease but not own beaches or the shores of rivers or lakes.

FINANCIAL FREEDOM — 70

Panama is a regional financial hub providing a wide range of financial services, and banking is well developed and stable. There are 90 banks, and foreign banks account for more than 70 percent of total assets. Foreign and domestic banks are treated equally. The largest of the three state-owned banks controls about 10 percent of the market. There is no central bank; an independent Banking Superintendency oversees the financial sector. Regulations are largely in compliance with international standards. New legislation passed in 2008 aims to strengthen the supervisory framework for banks and includes stricter rules concerning money laundering. Panama has been removed from the OECD's tax haven and money-laundering blacklist. The government exercises little control over the allocation of credit, and domestic credit to the private sector has grown steadily. Capital markets are relatively sophisticated, although the stock market trades primarily in government debt.

PROPERTY RIGHTS — 40

Panama's judiciary is constitutionally independent but influenced by the executive. Backlogs and corruption are severe. Enforcement of copyrights and trademarks, though still inadequate, is improving. Special intellectual property courts hear commercial cases alleging infringement, but redress is slow.

FREEDOM FROM CORRUPTION — 34

Corruption is perceived as widespread. Panama ranks 85th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Panama is a major drug-transit country. The general perception is that anti-corruption laws are not applied rigorously and that government enforcement bodies have lacked determination in prosecuting those who are accused of corruption, particularly in high-profile cases.

LABOR FREEDOM — 41.3

Panama's labor regulations are inflexible. The non-salary cost of employing a worker is high, and dismissing an employee is difficult. Regulations on work hours are rigid.