

Caribbean Sea



Pacific Ocean



Panama: Enhancing Competitiveness to Sustain Growth

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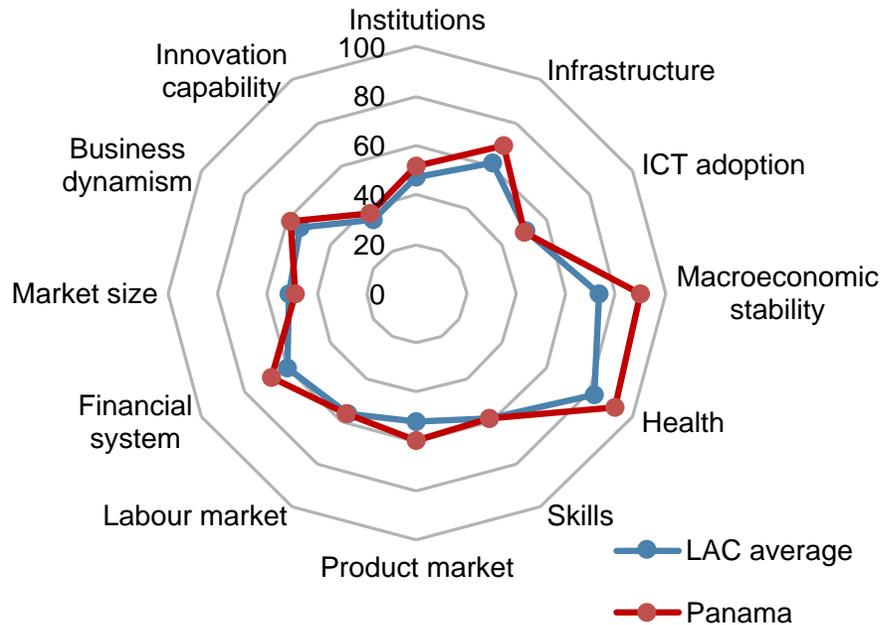
Mission Chief, Western Hemisphere Department
International Monetary Fund

Panama Remains Competitive

Panama outperforms peers in almost every pillar of the Global Competitiveness Index...

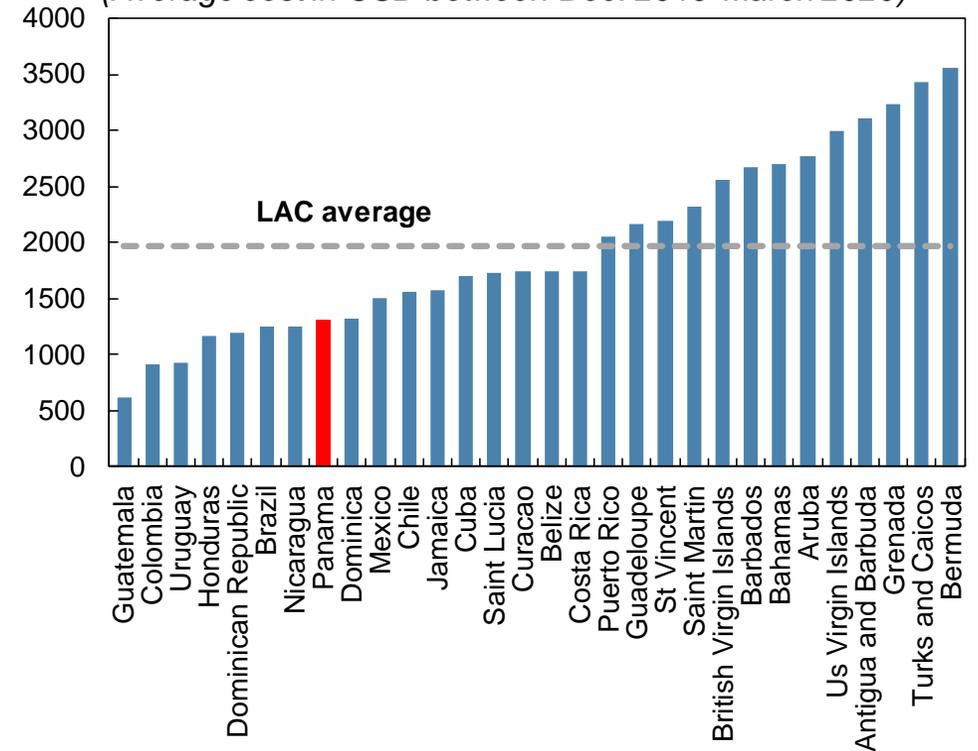
... and preserves low prices in tourism in a highly competitive region

Global Competitiveness Index (GCI) 2019
(From 0 to 100, where 0=worst and 100=best)



Source: World Economic Forum, Global Competitiveness Index 4.0 2019.

Week at the Beach Index ^{1/}
(Average cost in USD between Dec. 2019-March 2020)

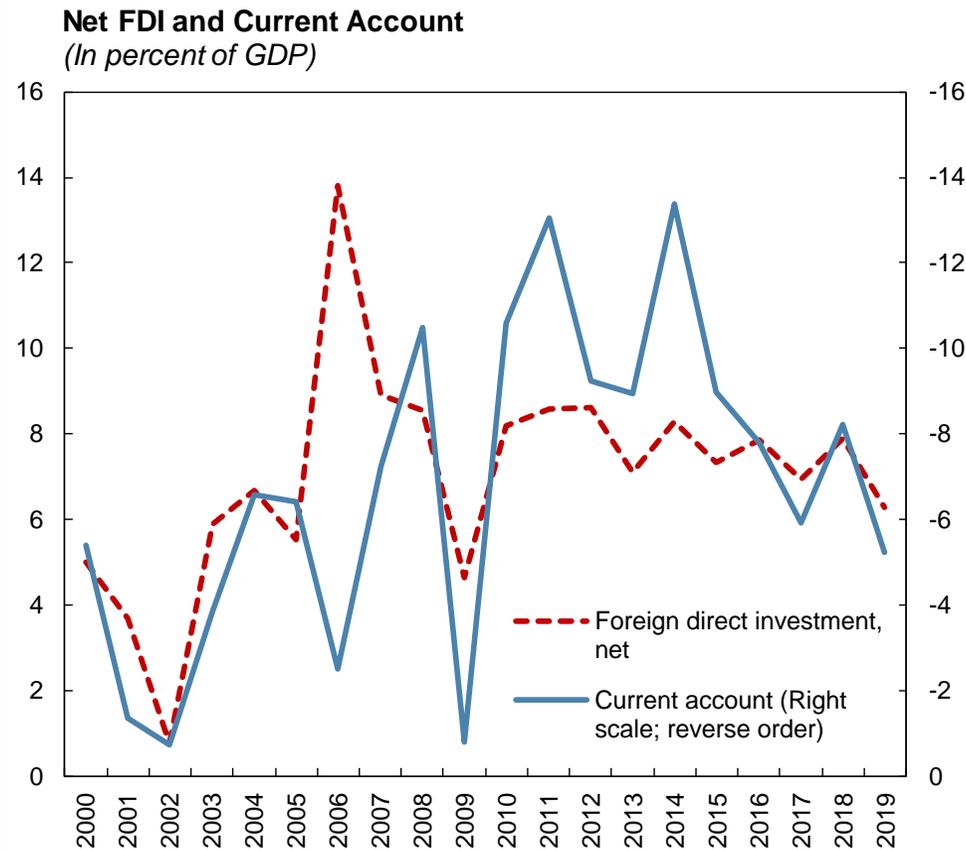


Source: IMF staff calculations.

^{1/} "Week at the Beach Index (W@TB)" measures the average cost of a 7-day-trip in a country's beach destinations. The Index is a composition of an average hotel price (3 to 4 'bubble' rating) from TripAdvisor and over 80 million crowdsourced data on meals, taxi fares, water, coffee, and beer.

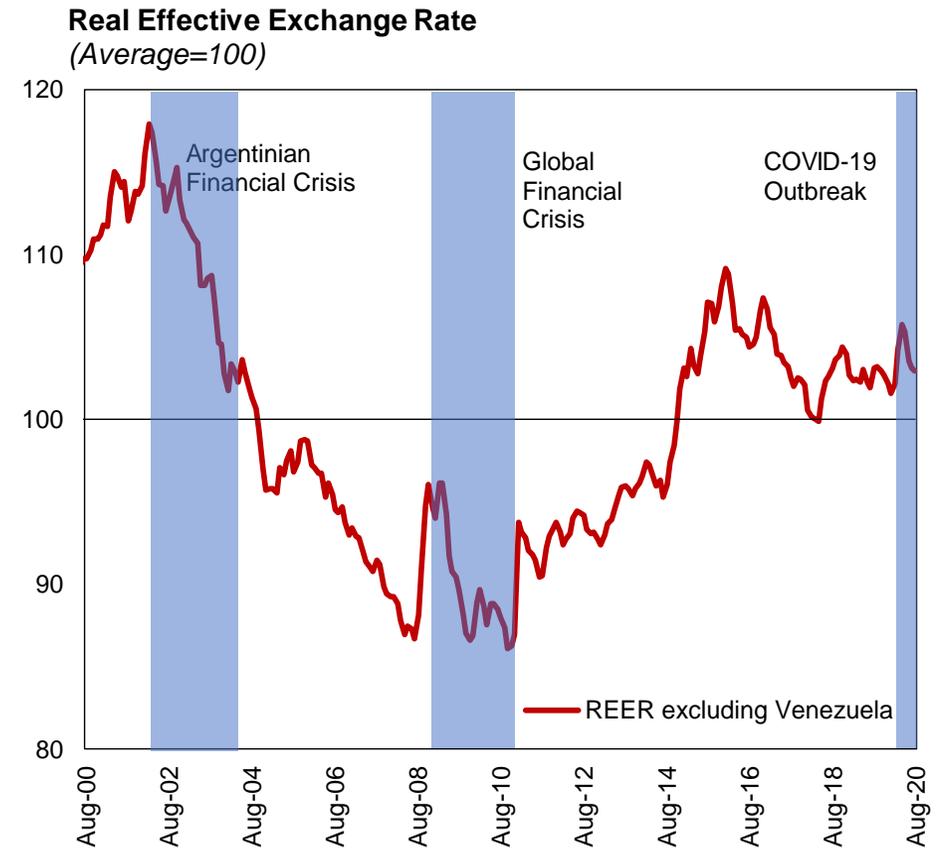
Current Account Deficit Driven by High Investment

FDI adequately finances the bulk of the current account deficit ...



Source: INEC and IMF staff calculations.

... while quick adjustment in the real exchange rate acts as an effective shock absorber



Source: INS and IMF staff calculations.

Addressing Bottlenecks

■ Institutions

- ▶ Adequate legal framework, but need to strengthen efficiency in public administration to increase quality in provision of public services
- ▶ Judicial system – strengthen trust in institutions by citizens and companies

■ Regulation

- ▶ Distortive tax exemptions and subsidies

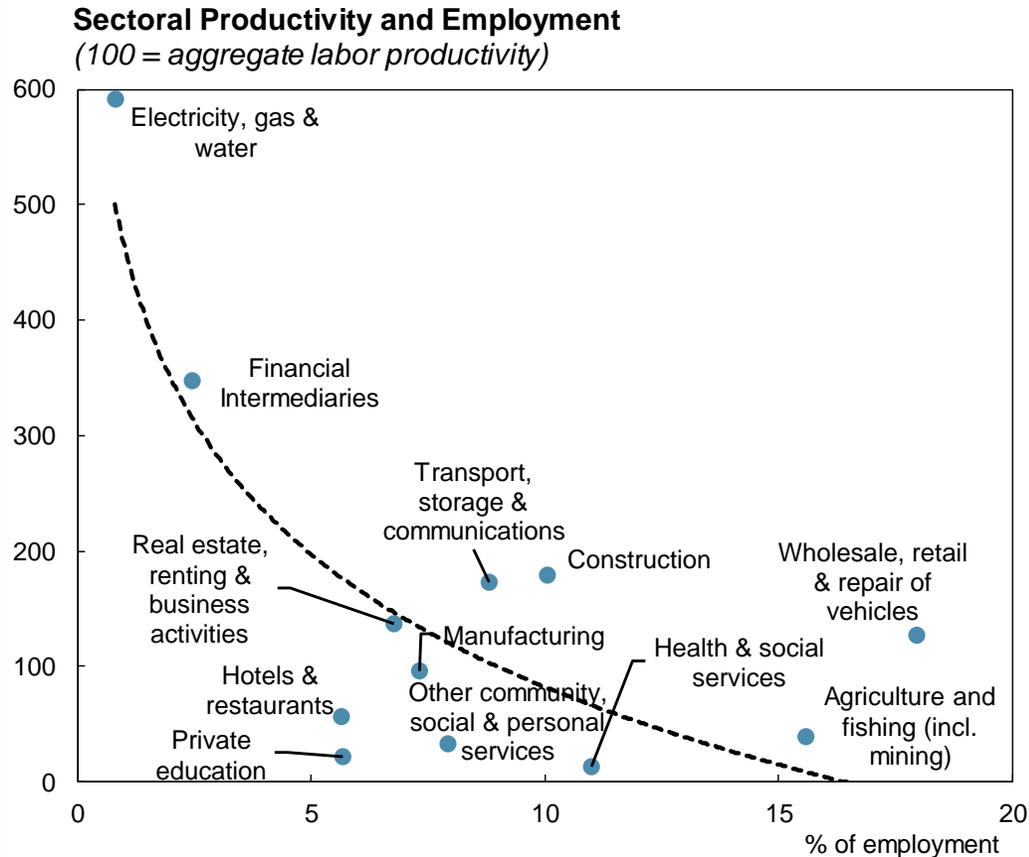
■ Labor markets

- ▶ Inflexible wage setting
- ▶ Lack of skilled labor

■ Innovation

- ▶ Leverage high FDI and foster knowledge spillovers (mobility of foreign workers)
- ▶ Augment quality of research institutions

Moving Labor to High Productivity Sectors

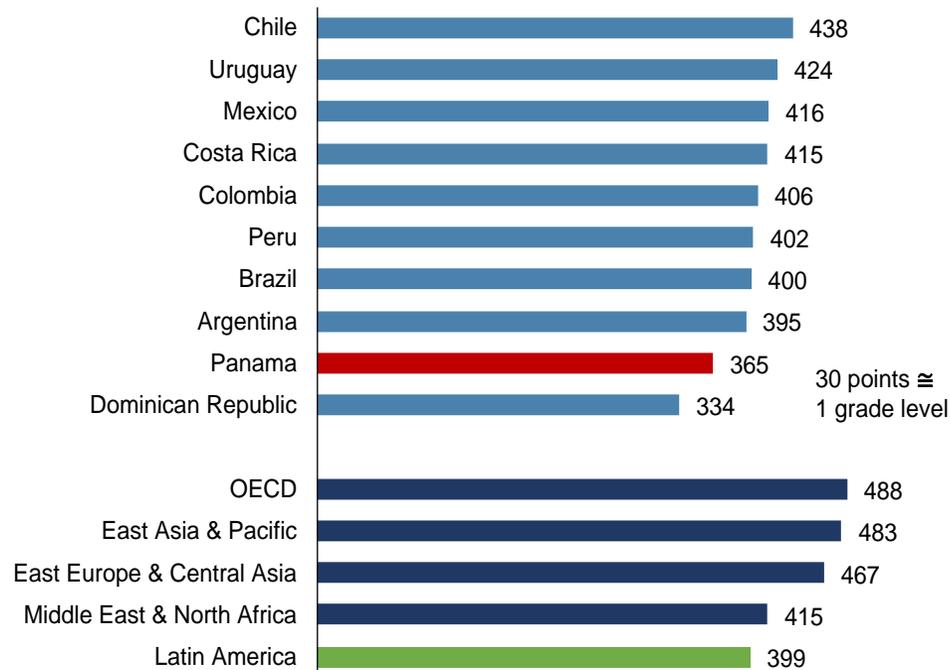


Source: INEC and IMF staff calculations.

- **Diversity.** Important differences across sectors in labor productivity
- **Non-Tradables.** Employ half of the working population
- **Cutting Edge.** Which sectors will drive future growth in Panama?
 - ▶ FinTech, BioTech, InfoTech
 - ▶ E-commerce
 - ▶ Tourism/Transportation
- **Actions.** How can policy support growth?

Preventing Skill Shortages

PISA Average Scores for Reading, Mathematics, and Science (means), 2018



Source: World Bank Blog "What are the main lessons from the latest results from PISA 2018 for Latin America?", based on OECD (2019), PISA 2018 Results.

Education

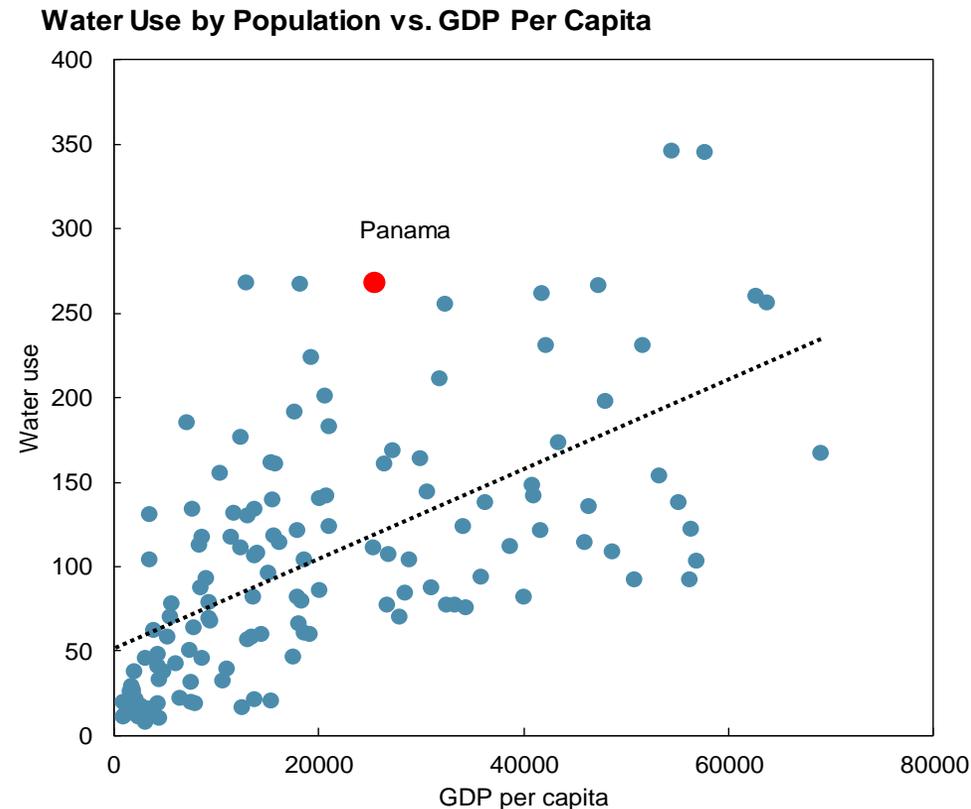
- Disappointing educational outcomes:
 - ▶ PISA results/secondary enrollment
 - ▶ Low international ranking for universities
- Need long-term supply of skilled labor
- Equal opportunities reduce inequality
- It takes 15 years of schooling to train an engineer

Immigration

- Many restriction on permits for foreign workers:
 - ▶ Maximum 10% of foreign workers
 - ▶ Protected professions
- Fast way to reduce shortage of skilled labor
- Foreign experts bring ideas and knowledge
- Foreign labor is often more expensive

Improving Infrastructure

Water consumption in countries with similar income per capita levels



Source: C. Garcimartín, J. Astudillo, O. Garzonio (2020), Water in the Panamanian Economy, IDB, based on the World Bank and Aquastat data.

■ Water

- ▶ Reliability of freshwater supply (rank 90 out of 140)
- ▶ 40-48% of water lost (mainly leakages)
- ▶ Crucial issue for the Panama Canal

■ Transportation

- ▶ Investment was concentrated in Panama City and Colon
- ▶ Improve access to transport infrastructure in rural areas
- ▶ “Last mile” – public transportation to lower commuting times and air pollution



Thank you!