I welcome this opportunity to discuss the CAS for Panama. The CAS document presents a candid and high quality analysis of the economic situation of the country. It highlights Panama’s main economic, financial and social problems, the objectives and policies of the government to tackle these problems, and the valuable collaboration and support of the Bank.

The CAS document clearly reflects the current situation in Panama and proposes a coherent strategy for the forthcoming years. The previous CAS 1995-98 was based on four main areas: macroeconomic stability to promote investment and to achieve economic growth; social efforts in health, housing, education and social security, investment in human resources and poverty alleviation; advance in the internationalization of the economy, in trade and finance, to achieve a broader and effective integration to the world economy; modernization of the public administration to improve its efficiency.

The present CAS builds on the previous CAS. It incorporates all the main outcomes and emphasizes on the major problems and challenges to be tackled at the medium and long terms, notably the causes of poverty and inequality in Panama. Therefore, the poverty issue remains central to any strategy aiming at solving Panama’s economic and social problems.

Because of its key geographic location, Panama’s economy is service-based, heavily weighted toward banking, commerce, and tourism, hence has strong links to international markets. The manufacturing and agriculture sectors have become inefficient under protectionist policies until late 80’s. But, after several years of slow and little growth, the economy of Panama began feedbacking to the reforms launched by the current government. In 1997, GDP rose to 4.4%, despite the effects of El Nino, unemployment was brought down from 14.3% in 1996 to 13.4% in 1997, and inflation was totally under control at 1½ % per year.

Panama’s government is committed to deepen and widen structural reforms and to maintain prudent fiscal and budgetary policies in a low inflation context in order to promote sustainable growth, generating employment and reducing poverty. The government intends to pursue its efforts in order to attain a GDP of 5% between now and 2000, and to
improve the effectiveness of health and education services by investing enough resources in these areas. Its poverty strategy and its action plan are very relevant to achieve the poverty reduction objective.

Panama has indeed established a track record of sound macroeconomic, and implemented a strong adjustment program in recent past years. Also, the debt and debt service reduction (DDSR) loan in 1996 and related measures to support the debt reduction helped to reduce the external debt, to restore the creditworthiness of Panama and to regain access to the international capital markets on favorable terms. Panama’s IMF three years program approved in December 1997 is being satisfactorily implemented, which is another added-value. Briefly, let me concur with the paper that this is a big turn-around for Panama to be now among the best regional performers in a number of areas.

Given the important role that the private sector plays in poverty reduction, I think it is crucial that the Bank group develop this sector to become the engine of growth in Panama, now that the environment is being consolidated.

Due to the participatory approach in the preparation of this CAS and the strong ownership by the government, there is a link between the government and Bank frames. Thus, there is a clear indication that CAS priorities and the proposed program are pretty relevant response to Panama’s development needs. The strategy of the Bank is framed on the government’s strategy and action plan. The thrust of the Bank’s future program is to assist Panama in effectively implementing its poverty strategy and action plan. Therefore, I support it, and I go along with the lending program for the next 3 years.

In terms of risks, as mentioned in the paper, it is never easy to foresee and control the political ones. Nevertheless, if the government maintains the momentum of economic reforms and stays alert and committed, the risks deriving from economic crisis could be minimized.

With regard to the public policy reform adjustment loan (Doc. R98-265), I support it in order for Panama to consolidate what has been attained to date and to continue to carry out public policy reforms.

Finally, I appreciate the candor of this CAS and its broad consultative and participatory nature. I commend Management and Staff for their contribution and support. I wish to Panama’s authorities a great success in the implementation of their program.