Board Meeting of November 19, 1998
Statement by Iván Rivera

PANAMA - Country Assistance Strategy

Introduction

We endorse the proposed Joint IBRD/IFC Country Assistance Strategy for Panama and commend staff for the high quality of the report. In particular, we are pleased with the extensive consultation process in the formulation of the CAS and the remarkable degree of agreement with the Panamanian authorities.

The CAS describes comprehensively Panama’s most important economic and social achievements and lays out a very demanding agenda for the coming three years. In particular, we welcome that the proposed CAS is framed around the government’s poverty strategy. Now, we would like to offer some comments on economic developments and the risks of the proposed CAS.

Economic Developments

Firstly, we commend country’s significant achievements in political stability that have created the conditions for substantial progress in structural economic transformation.

Since 1994, the government has adopted strong macroeconomic measures and major structural reforms. Among them we can highlight the privatization of public enterprises, the creation of the legal framework for private sector activities, and the elimination of price controls and trade restrictions. Panama also has recently concluded a debt service reduction accord, which has restored Panama’s access to international financial markets. Currently Panama is one of the few countries in LAC region with investment grade sovereign credit ratio. We are also pleased to learn from the report that the country continues to have a strong commitment to macroeconomic stabilization and structural reforms.

We are pleased to see that political stability coupled with progress in economic reforms, framed in a dollar based economic system, has transformed Panama in a very solid economy. This is clearly demonstrated by the significant increase in economic growth achieved in 1997 and 1998 in the presence of El Niño and the evolving international crisis, when most LAC countries are experiencing a
significant slowdown. This surge in growth is also helping for the first time in decades to reduce unemployment, which is still at a very high level.

One topic that needs to be addressed to achieve strong medium term sustained growth with equity is the high level of unemployment. This high rate of unemployment may indicate some lack of flexibility in the labor market, which is crucial for the achievement of sustained economic growth in a dollar-based economy. We would appreciate staff clarification on the status of the labor market and whether adequate measures are being taken to improve labor market flexibility.

Finally, we strongly support the Bank’s close collaboration with other donor countries and international organizations. In this regard, we encourage staff to maintain a dialogue with these development partners, in order to avoid overlaps and duplications of efforts.

**Risks to the Proposed Strategy**

The Bank would be willing to commit an amount of about US$ 225 million under the Base Case scenario, equivalent to the high case scenario of the last CAS. Management does not propose a high case scenario for this CAS due to the uncertainty on whether the incoming government intends to implement an aggressive program of macro and structural reform.

The most important risks for the proposed strategy seem to be the change in government that will take place in September 1999. However, we believe that this risk is moderate, taking into account that the next administration will need to maintain progress in economic reforms in order to ensure investor confidence. Moreover, this is crucial to attract foreign direct investment, especially given the imminent return of the Canal to Panama. Thus, we expect that the new government will continue the reform efforts in order to achieve a successful administration.

We believe that CAS focus on poverty alleviation, in particular the alleviation of the nutrition, health and education needs of the poorest is quite adequate at this specific juncture. First, because poverty alleviation is a non-conflict issue in election times. And second, will help to sustain momentum for the continuation of the structural reform effort in the coming government. Thus, we consider the timing of this CAS appropriate.

Finally, we would wish the Government of Panama and its people every success in the implementation of this program and express our hopes that it will soon bring important economic growth and developmental benefits to all the people of Panama.