



Panama's economy is 65.9 percent free, according to our 2007 assessment, which makes it the world's 47th freest economy. Its overall score is 1.3 percentage points lower than last year, partially reflecting new methodological detail. Panama is ranked 10th out of 29 countries in the Americas, and its overall score is slightly higher than the regional average.

Panama receives high scores for business freedom, fiscal freedom, freedom from government, financial freedom, investment freedom, and monetary freedom. Commercial operations are generally subject to clear rules, although bureaucratic inefficiency worsens the regulatory environment. Personal and corporate income tax rates are moderate, and overall tax revenue is low as a percentage of GDP. Government expenditures are also fairly low, and the country experiences only a marginal amount of inflation. The law welcomes foreign capital and imposes only minor restrictions on investments. Panama is a regional financial hub and uses the U.S. dollar as its currency.

Panama suffers from weak property rights and freedom from corruption. The judicial system is backlogged with cases, not committed to contract enforcement, and subject to political interference. The economic climate is further hurt by a significant amount of corruption in the judiciary and civil service. Trade regulations are enforced inconsistently.

Background:

Once a part of Colombia, Panama has been independent since 1903. Its canal was built by the U.S. Army Corps of Engineers and operated jointly with the United States until 1999. Since then, Panama has managed the canal and has put former U.S. military zones to commercial use. President Martín Torrijos, elected in 2004, has enacted laws to curb corruption and has proposed expanding the canal to handle large container ships. Education needs to be improved so that youth will be better prepared for jobs in the service sector that dominates Panama's economy.

Business Freedom - 75.1%

Starting a business takes an average of 19 days, compared to the world average of 48 days. Obtaining a business license is relatively simple, but closing a business is difficult. Regulations are generally transparent, but bureaucratic delays and red tape are obstacles to entrepreneurship. The overall freedom to start, operate, and close a business is relatively well protected by the national regulatory environment.

Trade Freedom - 66.2%

Panama's weighted average tariff rate was 6.9 percent in 2001. Import taxes (including a 5 percent transfer tax levied on the CIF value of all imports), an arbitrary and non-transparent import licensing process, inconsistent and non-transparent regulations and standards, export subsidies, weak enforcement of intellectual property rights, and corruption add to the cost of trade. Consequently, an additional 20 percent is deducted from Panama's trade freedom score to account for these non-tariff barriers.

Fiscal Freedom - 88.7%

Panama has moderate income tax and corporate tax rates. The top income tax rate is 27 percent, and the top corporate tax rate is 30 percent. Other taxes include a value-added tax (VAT) and a transfer tax. In the most recent year, overall tax revenue as a percentage of GDP was 8.5 percent.

Freedom from Government - 86.8%

Total government expenditures in Panama, including consumption and transfer payments, are low. In the most recent year, government spending equaled 18.7 percent of GDP, and the government received 15.2 percent of its revenues from state-owned enterprises and government ownership of property.

Monetary Freedom - 85.8%

Panama has used the U.S. dollar as its legal tender (i.e., has been fully dollarized) since its founding in 1904. Inflation in Panama is relatively low, averaging 2.1 percent between 2003 and 2005. The government controls pharmaceutical and fuel prices. It also influences prices through state-owned enterprises and utilities, including electricity and water. Consequently, an additional 5 percent is deducted from Panama's monetary freedom score to account for these policies.

Investment Freedom - 70.0%

Most sectors of the economy are open to foreign investment. The government imposes some limitations on foreign ownership—for example, in the retail and media sectors where ownership must be Panamanian, except in cases of franchising. Some professionals, such as medical practitioners, lawyers, and custom brokers, must be Panamanian citizens. Foreign investors may not purchase land within 10 kilometers of a national border or on an island. Both 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.

Financial Freedom - 60.0%

Panama is a financial hub in Latin America and home to numerous international companies and financial institutions. Because the U.S. dollar is legal tender, Panama does not have a central bank. Instead, an independent Banking Superintendency oversees the sector. A 1998 banking reform law brought Panamanian regulations largely into compliance with international standards. There are few restrictions on opening banks, and the government exercises little control over the allocation of credit. Domestic and foreign banks offer a wide variety of financial services. Foreign and domestic banks are treated equally, and there is considerable foreign participation in the banking sector. Of the country's 10 largest banks, two are state-owned. Capital markets are relatively sophisticated, although the stock market trades primarily in government debt.

Property Rights - 30.0%

Panama's judiciary, although constitutionally independent, is influenced by the executive. Businesses do not trust the system as an objective, independent arbiter in legal or commercial disputes. Backlogs and corruption are severe.

Freedom from Corruption - 35.0%

Corruption is perceived as significant. Panama ranks 65th out of 158 countries in Transparency International's Corruption Perceptions Index for 2005.

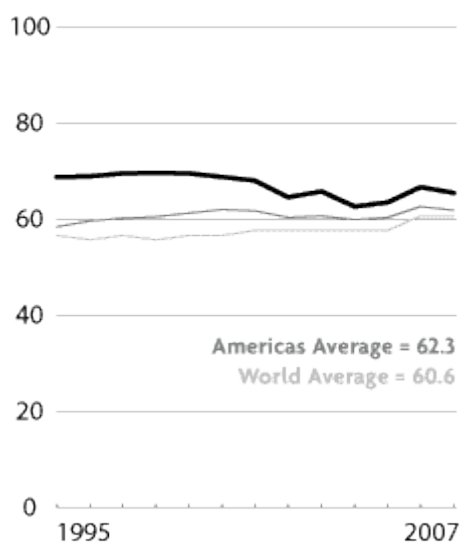
Labor Freedom - 61.2%

The labor market operates under inflexible employment regulations that hinder overall productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee can be difficult. Regulations on increasing or contracting the number of work hours are flexible.

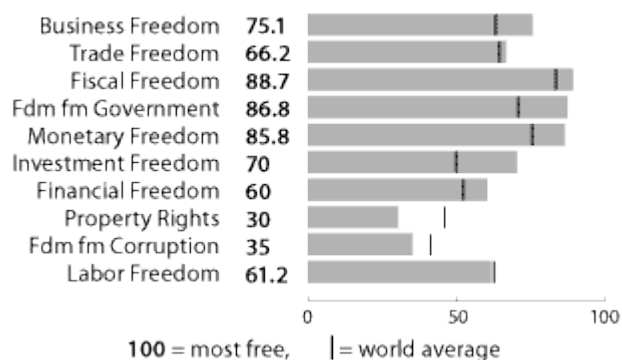
Panama

- **Rank:** 47
- **Regional Rank:** 10 of 29
-

The economy is 65.9% free



PANAMA'S TEN ECONOMIC FREEDOMS



Quick Facts

- **Population:** 3.2 million
- **GDP (PPP):** \$23.1 billion
7.6% growth in 2004
3.4% 5-yr. comp. ann. growth
\$7,278 per capita
- **Unemployment:** 9.8% (2005 estimate)
- **Inflation (CPI):** 0.5%
- **FDI (net inflow):** -\$472.7 million
- **Official Development Assistance:** \$39 million (39% from the U.S.)

- **Exports:** \$8.9 billion
Primarily bananas, shrimp, sugar, coffee, clothing
- **Imports:** \$9.2 billion
Primarily capital goods, food, consumer goods, chemicals