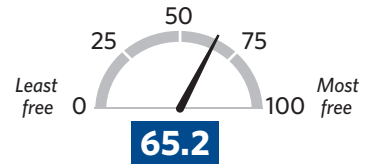


PANAMA

Economic Freedom Score



World Rank: **55**

Regional Rank: **11**

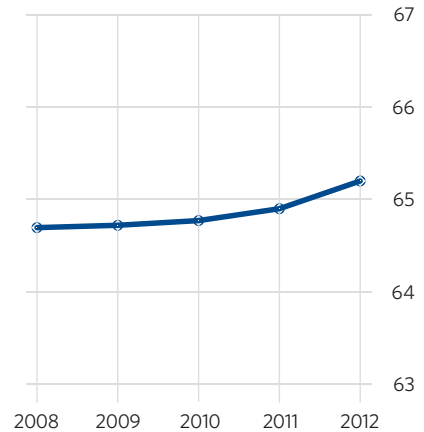
Panama's economic freedom score is 65.2, making its economy the 55th freest in the 2012 *Index*. Its score is 0.3 point better than last year due to improvements in freedom from corruption, monetary freedom, and fiscal freedom. Panama is ranked 11th out of 29 countries in the South and Central America/Caribbean 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. Management of public finance has been relatively prudent, and the top income tax rate and the corporate tax rate have been reduced to 25 percent. Capitalizing on Panama's liberal trade and investment frameworks, the service-oriented economy continues to be a dynamic international business hub for such activities as maritime transport, distribution services, and banking.

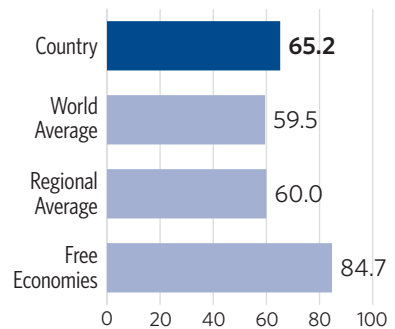
Despite progress, Panama's overall economic freedom continues to be restrained by institutional shortcomings that undermine prospects for long-term economic expansion. Anti-corruption laws seem to have had little impact, and the judicial system remains vulnerable to political interference.

BACKGROUND: President Ricardo Martinelli's center-right Alliance for Change coalition took office in 2009 and immediately expanded spending on state-run infrastructure and public transportation. Though Martinelli claims to be a market liberal, future plans include a government office skyscraper in the capital and a "governmental city." Banking and services jobs account for 80 percent of employment in the formal economy. Panama is 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 constructing a third set of locks to modernize and enlarge the canal. The U.S.–Panama Trade Promotion Agreement, approved by the U.S. Congress in 2011, should encourage economic growth and development. Money laundering, narcotics trafficking, and crime are major challenges.

Freedom Trend



Country Comparisons



Quick Facts

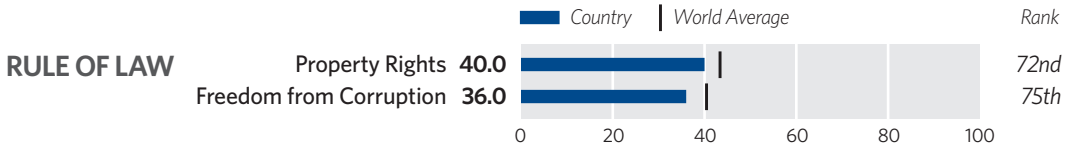
Population: 3.5 million
GDP (PPP): \$44.4 billion
 7.5% growth in 2010
 5-year compound annual growth 8.3%
 \$12,578 per capita
Unemployment: 6.5%
Inflation (CPI): 3.5%
FDI Inflow: \$2.3 billion
Public Debt: 38.7% of GDP

How Do We Measure Economic Freedom?

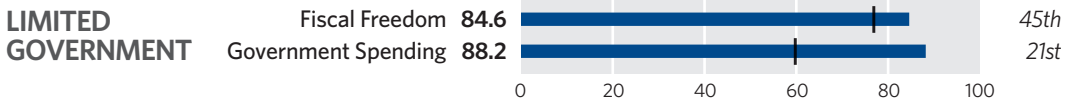
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

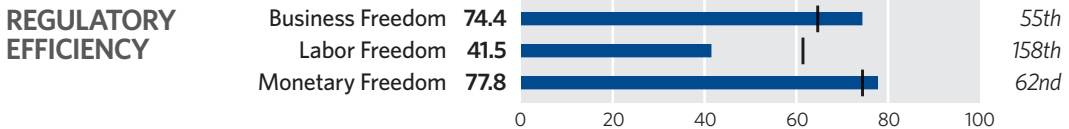
THE TEN ECONOMIC FREEDOMS



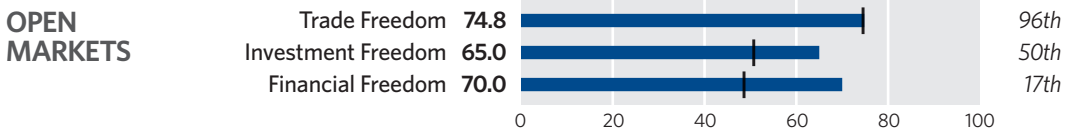
The rule of law has gradually strengthened. However, the judiciary, although constitutionally independent, is still susceptible to political interference. The court system remains inefficient, with severe backlogs and weak capacity to resolve contractual disputes. Enforcement of copy-rights is improving. Anti-corruption laws are not applied rigorously, particularly in high-profile cases.



The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a capital gains tax, with the overall tax burden amounting to 17 percent of total domestic income. Government spending is equivalent to 19.8 percent of GDP. The budget balance has recorded small deficits in recent years, and public debt has been around 40 percent of total domestic output.



The overall regulatory environment is efficient, but the pace of reform has slowed. With no minimum capital requirements, starting a business takes only eight days in comparison to the world average of 30 days. The labor market lacks flexibility. Restrictions on work hours are rigid, and the non-salary cost of hiring a worker is relatively high. Monetary stability has been fairly well maintained.



The trade weighted average tariff rate is 7.6 percent, with non-tariff barriers adding to the cost of trade. Foreign investment is officially welcome and subject to national treatment, but there are sectoral restrictions. The investment regime is not particularly conducive to spurring growth in new investment. The financial sector, vibrant and generally well regulated, provides a wide range of services.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+2.0	Business Freedom	-0.7	Trade Freedom	-1.0
Freedom from Corruption	+2.0	Government Spending	-0.4	Labor Freedom	+0.4	Investment Freedom	0
				Monetary Freedom	+0.7	Financial Freedom	0