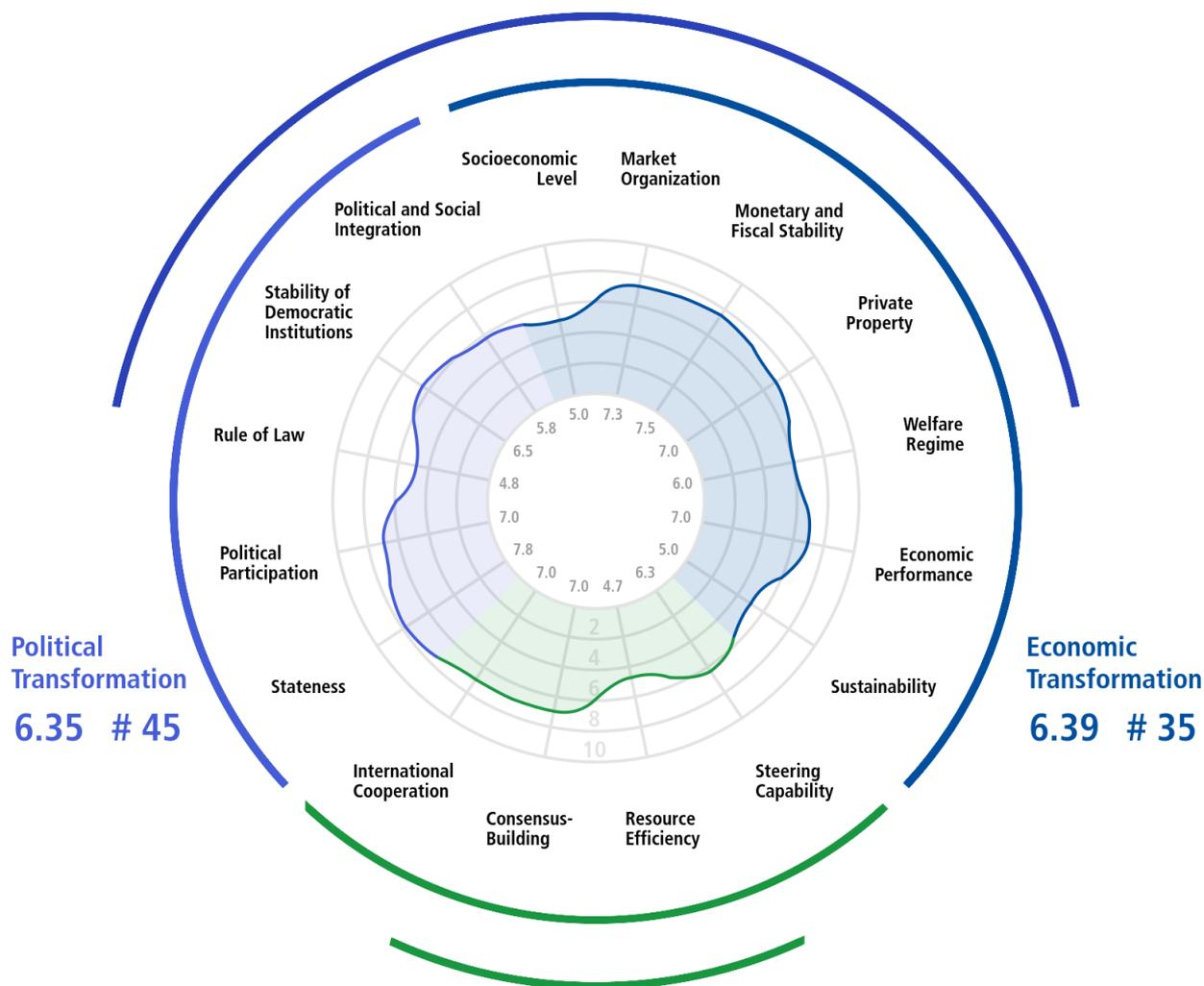


Panama

Status Index

6.37 # 38

on 1-10 scale out of 137



Political Transformation
6.35 # 45

Economic Transformation
6.39 # 35

Governance Index

5.36 # 40

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	4.5	HDI	0.839	GDP p.c., PPP \$	41405
Pop. growth ¹	% p.a.	1.3	HDI rank of 193	59	Gini Index	49.7
Life expectancy	years	79.6	UN Education Index	0.731	Poverty ³	% 4.4
Urban population	%	69.9	Gender inequality ²	0.374	Aid per capita \$	92.0

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Although Panamanian democracy has remained stable since its reinstatement in 1989, structural problems have emerged in recent years, generating unprecedented social unrest. Inequality, corruption, political interference and a lack of transparency have exposed institutional inefficiencies and generated demands for change and regeneration in political practice. The cleavage between supporters of new and old politics appears to permeate the Panamanian system, and protests have intensified.

The most recent elections signaled the beginning of a new political chapter for Panama. Within the fragmented and polarized National Assembly, independents emerged as the largest legislative minority for the first time in the country's history. The July 1, 2024, inauguration of the new president, José Raúl Mulino of the Realizing Goals Party (Realizando Metas, RM), also reflected the nation's current tensions. Legal challenges to his candidacy nearly forced him out of the race, and his ties to former President Ricardo Martinelli fueled distrust among segments of the population.

The new president presented a concrete strategy, promising voters that Panama would recover the economic bonanza and the high levels of job creation that characterized Martinelli's government (2009 – 2014). During the first two years of that government, Panama had the fastest-growing economy in Latin America, partly due to major construction projects, including the expansion of the Panama Canal and the country's first metro line.

However, these are not the only relevant issues on the political agenda. The state's management of welfare policies, such as those related to employment, the cost of living, citizen security, infrastructure, health and education, shows clear shortcomings. Drug-trafficking is driving

increased insecurity, while poverty remains the main social problem. Although Panama has achieved better results than other Latin American countries in recovering from pandemic-era economic setbacks, this economic growth has not been accompanied by a corresponding reduction in poverty or inequality. Finally, the migration crisis has had a significant impact on the country, particularly in the Darién area.

In the first months of his administration, President Mulino has taken steps to advance his government program, especially in the areas of economic policy and infrastructure. Still, his actions have not been without controversy. Opposition groups have criticized the lack of consensus around some reforms and argued that economic measures have not had the expected impact on the country's most vulnerable groups. Protests have also emerged over the perceived slowness in implementing policies responding to the climate crisis, an issue of concern to much of the population.

History and Characteristics of Transformation

Panama gained its independence from Spain in 1821, after which it voluntarily joined Colombia. After several subsequent attempts to secede from Colombia, a group of patriots successfully established a Panamanian state in 1903. However, this longed-for goal was achieved only with the support of the United States, which subjected the small republic to its overpowering influence so as to dominate the transit zone being used for the construction and operation of a transisthmian ship canal. Tensions between Panama and the United States continued for much of the 20th century, culminating in bloody flag riots in 1964 and bilateral treaties in 1977 that mandated the transfer of the canal to the Isthmian Republic on December 31, 1999. However, U.S. influence has remained a major force in Panama, with Washington exerting a dominant role in matters of interest to the U.S., especially in the areas of security, international finance and foreign relations.

A military coup interrupted constitutional government on the Isthmus in 1968, inaugurating an authoritarian regime that remained in power until a U.S. invasion ousted it in 1989. The military government officially assumed power on October 13, 1968, receiving recognition from the United States and other Latin American countries in the weeks that followed. In the days following the coup, the military continued to persecute and detain opponents, driving many into exile and leading to the suspension of constitutional guarantees.

Panama's current political system originates in the military dictatorship, particularly in the 1972 constitution, which remains in force (although amended in 1978, 1983, 1994 and 2004). The 1972 constitution was decisive in shaping the party system and the electoral system, which was established in 1983. With the 1972 constitution, Panamanian democracy acquired its most significant features, such as the rotation of the executive through elections every five years; the preservation of the president's constitutional mandate; and the predominance of "particracy," including clientelism and vote-buying.

Following the U.S. invasion, Panama transitioned to democracy between 1989 and 1994 under the leadership of President Guillermo Endara of the Panameñista Party (PPA), then known as the Arnulfista Party. After Endara, seven presidents have held office, all without interruption. Democratic Revolutionary Party (PRD) candidates have held the presidency three times (1994 – 1999, 2004 – 2009 and 2019 – 2024), while the PRD has controlled the legislative branch for most of Panama’s democratic period. Additionally, the PRD has dominated most municipal councils throughout the country and has a significant presence within the national bureaucracy. Since 1994, two presidents, Mireya Moscoso (1999 – 2004) and Juan Carlos Varela (2014 – 2019), have been members of the Panameñista Party. Finally, candidates from outside these two traditional parties reached the presidency on two occasions: Ricardo Martinelli in 2009 and José Raúl Mulino in 2024.

The most important characteristic of Panamanian politics since 1989 has been its relative democratic stability alongside persistent corruption and clientelism. Panama has maintained a democratic system with regular elections and peaceful transfers of power. At the same time, Panama’s recent democratic history has been characterized by continued economic growth, except during the COVID-19 pandemic. This economic growth has been driven by foreign investment, public works, increased trade and international services provided by local suppliers, as well as – after 1999 – the operation of the country’s emblematic asset, the Panama Canal.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

Although the advent of democracy was accompanied by the state's monopoly on the use of force throughout the country, Panama has faced security challenges in recent years, mainly due to organized crime. As a result, the number of homicides and activities related to drug-trafficking has increased significantly.

According to Public Ministry data, 2023 was the most violent year of the last decade, with 556 people murdered. This was 57 more homicides than the previous year. In 2024, there were 544 murders. The vast majority of homicides, about 90%, are committed with firearms and are linked to gang expansion and rivalry, drug-trafficking, score-settling, territorial fights or other criminal activities.

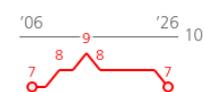
Panama's role as a sophisticated drug-trafficking hub, rather than simply a transit point for cocaine, was exposed when the country was designated as the logistical center of a recently dismantled "super-cartel." According to Panamanian authorities, 180 gangs operate in the territory. These groups are mainly involved in drug logistics and custody of shipments, as well as contract killings, kidnappings, extortion, and control of territory for the movement and sale of drugs.

The provinces with the highest homicide rates per 100,000 inhabitants recorded in the country in 2023 were Colón (37.6), Panama (21.3) and Darién (14.7). The districts with the highest rates for that year were Colón (40.7), followed by San Miguelito (34.9) and Panama (18.6). In recent years, the Darién Gap has become an important route for illegal immigration, with up to 500,000 people attempting to cross the border in 2023 and 300,000 in 2024. Criminal gangs, especially the Gulf Clan, are known to benefit from this flow of people.

Question
Score

Monopoly on the
use of force

7



1

All individuals born in Panamanian territory are citizens from birth (*jus soli*). In addition to those born in the country, foreigners may opt to become citizens under Article 10 of the constitution after five consecutive years of residence in Panama or after three consecutive years if they have a Panamanian spouse or children born in the republic to a Panamanian father or mother.

According to the 2023 census, Panama has a population of 4.2 million. One notable characteristic of the population is its cultural diversity: Afro-descendants, mestizos, Indigenous people and migrants from different parts of the world coexist in the country. This latest census shows notable differences compared with 2010; for example, the Afro-descendant population increased from 313,289 to 1,286,857 people (31.7% of the total population), while the number of individuals belonging to Indigenous groups increased from 417,559 to 698,114 (17.2% of the total population).

Panama is home to eight Indigenous ethnic groups who live in semiautonomous territories. Panama was the first country in Latin America to recognize the political and administrative autonomy of Indigenous peoples through the creation of Indigenous regions. However, the state has not ratified ILO Convention 169 on the rights of Indigenous and Tribal Peoples, and social conflicts over mining and dams regularly arise.

Although the vast majority of the population accepts the legitimacy of the nation-state, not all individuals and groups enjoy the right to citizenship free from discrimination. Constitutional discrimination persists against foreigners living with disabilities. Immigrants often encounter obstacles to obtaining legal residence and citizenship.

Article 35 of the constitution declares that the practice of all religions is free but limited by respect for Christian morality. In a 2022 survey by the National Institute of Statistics and Census, 65% of respondents identified as Catholic, 22% as evangelical, 6% said they did not practice any religion and 4% identified with “other religions.” Jewish leaders estimate that their community totals about 15,000 people, primarily in Panama City. Shi’ite Muslim community leaders estimate the country’s total Muslim population (Shi’ite and Sunni) at around 14,000 people, with the majority residing in Panama City, Colón or Penonomé.

Other groups that constitute less than 5% of the population include Episcopalians, Baha’is, Buddhists, Methodists, Lutherans and Rastafarians. In practice, the state-church relationship is evident in Panama. Religious invocations are made during public events, clergy are given positions of honor, significant funds are allocated to religious organizations and Catholicism is taught in public schools. In the first months of Mulino’s presidency, the police motto was changed from “Protecting and serving” to “God and fatherland.”

Religious leaders, especially from the Catholic Church (but also from evangelical denominations), wield political influence on matters of interest to the organizations they represent, particularly health issues.

State identity

9



1

No interference of religious dogmas

8



1

Panama's public administration and basic services are marked by bureaucratic inefficiency, persistent corruption and inequality in service delivery, with well-developed infrastructure in urban areas but significant shortcomings in rural and Indigenous communities. The Public Services Authority (ASEP) is the regulatory body for public services in Panama.

The World Bank's most recent data indicate that 94.7% of the population has access to improved water sources, 85.9% to basic sanitation and 95% to electricity. However, electricity coverage remains inconsistent in rural and majority-Indigenous areas. A significant share of the Panamanian population continues to have difficulty accessing public services because of inadequate staffing, inefficiency, budget constraints and widespread corruption. According to Latin American Public Opinion Project (LAPOP), one in five people does not have 24-hour access to water.

In terms of education, access and quality also vary significantly across the country's regions and territories, often depending on socioeconomic level. In very general terms, schools in urban areas have better infrastructure, are better equipped and have better trained teachers than do rural and majority-Indigenous areas.

After José Raúl Mulino became president in 2024, the government announced a public infrastructure investment plan. The president promised to build a water treatment plant on the Santa Maria River and a chain of wells to serve communities that lacked water supplies. In addition, he announced the development of the San Miguelito cable car route and projects for Colón, Bocas del Toro and Darién, as well as major works in the agriculture and tourism sectors, such as the Caribbean waterfront and a cold-chain center for the export of seafood and flowers at the Rio Hato and David airports.

In 2023 and 2024, 100% of the judiciary's requested budget was allocated, providing it with the necessary resources and financial autonomy. In terms of security, the country has no armed forces. Civilian authorities maintain effective control over the security apparatus. In the area of tax policy, various organizations advocate for reforms that they say would make Panama more competitive for foreign investment and more efficient in tax collection.

Basic
administration

7

'06 _____ '26 10

7

_____ 1

2 | Political Participation

Panama guarantees universal suffrage by secret ballot. On May 5, 2024, elections were held to select the country's president, 20 deputies to the Central American Parliament, 71 deputies to the National Assembly, 81 district mayors, 702 township representatives and 11 council representatives. According to the Electoral Observation Mission (EOM) sent by the Organization of American States (OAS), the 2024 elections were generally free and fair.

Before Election Day, the process was highly uncertain because of a pending Supreme Court decision regarding the legality of the candidacy of José Raúl Mulino, who had served as former President Ricardo Martinelli's minister of public security, and was viewed as his strongman. After weeks of concern, the country's Supreme Court of Justice ruled that Mulino's candidacy was constitutional on May 3. Election Day was marked by high levels of turnout and no notable incidents beyond specific complaints of alleged irregularities with ballots and occasional disputes among party sympathizers.

In 2024, legislators unaffiliated with political parties went from a minority to the leading political force in the National Assembly, displacing the strongest parties and winning many of the seats and local positions in the May 5 elections. Finally, although the electoral law provides for gender equality, exception clauses dilute it, resulting in only 10% of candidates being women and only 14 of them winning one of the 71 seats in the Assembly.

In general, all candidates and parties have fair and equal access to the media during elections in Panama. Voting takes place in a highly clientelistic environment. While vote-buying was common in the past – especially in National Assembly elections and municipal elections for mayors and county representatives – this form of electoral manipulation has become substantially less common over the past decade.

The Electoral Code was amended in late 2023, a few months before the elections. The reform, which was controversial, favors major parties by altering the proportional representation system used to elect members of the National Assembly. The Electoral Tribunal (TE) was among those who opposed this change.

In general, elected political representatives in Panama hold effective power to govern. However, various actors have established their own political spheres based on particular interests.

Following the 1994 constitutional amendment abolishing the armed forces, the most important potential veto power disappeared. Nevertheless, the United States continues to exert influence over Panama's foreign relations and certain domestic issues of interest to Washington, D.C., including migration and security. Although discreet in recent decades, this influence and even veto power have become evident since the election of Donald Trump as U.S. president.

Free and fair elections

8



1

Effective power to govern

7



1

Newly elected President José Raúl Mulino has continued his predecessors' focus on strengthening the security forces while also announcing an internal purge to prevent infiltration by organized crime. In 2022, former Minister of Public Security Rolando Mirones warned of a collusion among high-ranking legislators, the National Police and organized crime groups that sought to exploit prison management for profit and political gain. In addition, security forces act as veto players, blocking oversight and democratic control while monopolizing security policy and often imposing arbitrary or ineffective measures such as nationwide checkpoints.

Panama's business elite wields significant influence in the political sphere, with many interests seeking and acquiring state contracts. With its spending, the government blurs the line between acting on behalf of political and corporate interests. Despite strong regulatory and democratic institutions, the degree of state capture remains significant, with economic elites using tools of influence such as control over state income, business-sector cohesion, campaign financing and revolving doors. These elites also coordinate contributions to presidential candidates and secure key government appointments for business leaders.

The constitution guarantees the freedoms of assembly (Article 38) and association (Article 39), subject to government approval, provided that such activities do not promote objectives contrary to "morality," unlawful purposes or racial discrimination. Political and civil society groups have generally been able to operate without unwarranted state interference in their affairs. In recent years, however, the government's response to protests has hardened.

Since 2020, police have used drones, supposedly for crime control. However, they have increasingly been used to monitor social protests without a legal basis. One of the latest examples is the strong wave of protests in Panama in October 2023. This was in response to the renewal of copper mining by Minera Panama (First Quantum Minerals) in the biodiverse settlement areas, which had been approved by the National Assembly under the Cortizo administration. The protests were sparked by allegations of corruption and bribery of government officials, as well as by environmental concerns. The three weeks of protests resulted in 1,061 arrests, 134 of which involved minors, for "vandalism, property damage, other crimes and administrative offenses," the Ministry of Public Security said in a statement.

According to a report prepared by the Foundation for Integral Community Development and Conservation of Ecosystems in Panama (FUNDICCEP) and the National Network in Defense of Water Panama, the government violated the population's human rights. Reports of deaths, injuries from rubber bullets, the effects of tear gas, arbitrary detentions, prosecutions and the criminalization of protests suggest that the state has adopted a position that contradicts international agreements on the right to protest. Because of this police repression, five people, including two minors, partially lost their vision. The country's main trade union had its bank accounts closed for several months, apparently in retaliation for the protests.

Association /
assembly rights

6



1

Article 37 of the Panamanian constitution recognizes the freedom of expression. However, statements that offend the honor or reputation of individuals, as well as those affecting “social security” or “public order,” are subject to “legal responsibilities.” The new president, Mulino, signed the Declaration of Chapultepec on Freedom of Expression and Press, a decalogue of principles dating to 1994, in November 2024. He also signed the Salta II Declaration, which the Inter-American Press Association (IAPA) ratified. Like the Chapultepec Declaration, this establishes principles aimed at protecting and promoting the freedom of expression in the digital environment.

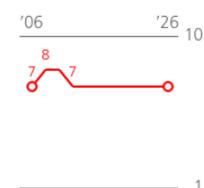
Although there are no formal legal regulations on journalistic censorship, criminal libel and slander regulations have been used over the past decade to sue dozens of journalists, editors, publishers, directors and various media outlets for their coverage of high-level corruption cases.

In 2023, Panama improved its position in Reporters Without Borders’ World Press Freedom Index, moving from 74th to 69th place (among 180 countries). In 2024, however, it fell to 84th place. At the same time, a 2024 IAPA report called the Chapultepec Index indicates that Panama is on the verge of joining the group of countries that restrict freedom of expression and press freedom. The document notes that Panama dropped two positions and registered a decrease of 3.51 percentage points in its index score compared with the previous period. The IAPA described the situation as worrying. In analyzing the main concerns, the report emphasizes the judicial harassment of media and journalists and the lack of transparency among state institutions, which have proved reluctant to comply with laws on access to public information. It also highlights growing hostility toward the media and media professionals.

Finally, the impact of business interests warrants attention. Panamanian media are dominated by a few corporations. This dominance stems from decades of intricate ties linking powerful economic and political interests to media corporations. Media corporations openly support political candidates, while journalists routinely leave their posts to take executive and even diplomatic positions. The symbiotic relationship between the political-economic elite and media corporations has resulted in disarticulation and laxity in media legislation, especially in the radio and television sphere. In the context of the conflict over the mining contract, it became evident that some powerful economic interests were effectively able to buy the media and journalists.

Freedom of
expression

7



3 | Rule of Law

Panama is a presidential democracy constitutionally organized in a republican format. The separation of powers is set out in Titles V, VI and VII of the Panamanian constitution. In practice, however, the executive branch exercises considerable power over the legislative and judicial branches. On the World Justice Project's 2023 Rule of Law Index, in the category of "limitations on government powers," Panama scored 0.53 on a scale of 0 to 1. In the global ranking, Panama was 74th out of 140 evaluated countries. This was a drop of four places from the previous year. Among the 32 Latin American and Caribbean countries analyzed, it ranked 15th.

The capacity for checks and balances between the executive and legislative branches also depends on the strength of the president's party in the National Assembly. In the 2024 general election, President Mulino's coalition won 17 of the 71 seats in the National Assembly. The election resulted in a highly divided assembly where no political force commands a majority, and in which nonpartisan deputies represent the largest minority bloc. In practice, for now, the political parties are allied with the government, while nonpartisan deputies are in opposition. However, the high level of corruption and patronage in the National Assembly has made party affiliation less important than other forms of loyalty, undermining the legal separation of powers.

The Supreme Court of Justice has the power to impeach members of the National Assembly, while the National Assembly may impeach members of the Supreme Court. However, the executive's appointment of Supreme Court members, with ratification by the National Assembly, somewhat diminishes the degree to which the judiciary is fully independent of the other two branches of government.

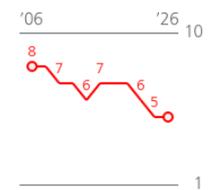
The judicial system consists of the Judicial Branch, headed by the Supreme Court of Justice, and the Public Prosecutor's Office, headed by the Attorney General's Office. The National Directorate of Judicial Investigation is responsible for investigations. The judicial system is adequately differentiated by territory and function. However, it suffers from severe corruption and a lack of merit-based professionalism, factors which have drawn criticism from numerous international representatives and observers, including the U.S. government. Corruption is also a key factor undermining judicial independence.

The selection of magistrates and judges has exhibited serious shortcomings that have contributed to deep public discontent with the justice system in recent years. The belief that the judiciary is inefficient and corrupt and controlled by political powers, particularly the government, is widespread. While there is a diversity of selection systems across jurisdictional levels, criticism of the system for appointing Supreme Court justices and of the composition of lower courts has been particularly sharp.

During former President Laurentino Cortizo's term (2019 – 2024), various voices expressed this criticism, noting that the executive had appointed six of the nine members of the top court. The opposition argued that the current formula undermines the administration of justice by making it highly susceptible to political influence.

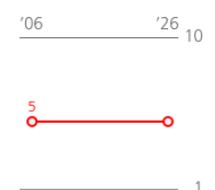
Separation of powers

5



Independent judiciary

5



Panama performs poorly in curbing corruption, including in regional comparisons. Despite some progress in recent years, cases often stall or do not reach the courts. As a result, significant shortcomings remain with regard to improving transparency and accountability in the public sector and in sanctioning acts of corruption effectively.

The country's anti-corruption framework as yet lacks effective protections for whistleblowers, especially officials; strong regulations on crimes against the public administration, with appropriate penalties; rigorous anti-bribery laws; legislation on asset forfeiture (*extinción de dominio*), which would allow the state to confiscate property derived from corruption or other illicit activities; and laws against judicial harassment of journalists and activists, among other gaps. Transparency laws requiring public disclosure of officials' assets and conflicts of interest are not currently in place. The law on access to public information should be strengthened in order to avoid conflation with individuals' private information.

The arrival of Mulino as president could signal stagnation in Panama's efforts to strengthen the fight against money-laundering and corruption. Although he advocated transparency measures during his campaign, the new president is not considered a strong defender of anti-corruption efforts. He is regarded as a stand-in for former President Martinelli, whom the United States has accused of "participating in significant acts of corruption" due to his involvement in a series of scandals. Mulino himself was imprisoned for embezzlement in 2015 and released six months later after procedural errors annulled the case against him.

Panama is a member state of several international organizations and has ratified the core U.N. human rights treaties as well as the American Convention on Human Rights. However, in practice, civil rights are not adequately respected or protected due to judicial inefficiencies.

The 2023 report from the Ombudsman of Panama highlights the need to strengthen policies in order to better protect Afro-descendants, Indigenous populations, women, migrants, the prison population and LGBTQ+ individuals. Despite progress in recent decades, Afro-Panamanian groups are routinely victims of racial profiling, police abuse, mistreatment, humiliation, exclusion and social marginalization. Indigenous groups continue to be denied their legal rights to participate in decisions affecting their lands, culture, traditions, and the allocation and exploitation of the country's natural resources. Women, girls and adolescents are more vulnerable than men due to gender-based violence, and are disadvantaged in areas such as economic empowerment, food security, political participation and representation, according to data from the United Nations Programme for Gender Equality and the Empowerment of Women.

Migrant populations often lack protection for their rights, and various associations have called for mechanisms to ensure their safety. Most migrants come from Venezuela, Colombia, Nicaragua and other neighboring countries. The number of people crossing the Darién jungle in 2023 was 109% higher than in 2022, and about

Prosecution of office abuse

3

'06 _____ '26 10



1

Civil rights

6

'06 _____ '26 10



1

25% of the migrants – more than 520,000 in total that year – were minors. People who try to cross the Darién are frequently exposed to violence, sexual abuse, human trafficking and disease.

In the prison system, there are recurring complaints about violations of fundamental rights. There is no law protecting LGBTQ+ individuals against discrimination. In 2023, the Supreme Court rejected recognition of same-sex marriage.

Other rights-protection issues in Panama include police abuse and difficulties accessing justice. Violations of fundamental guarantees, unconstitutional actions and the excessive use of force by security personnel appear to be part of the country’s “normality.” Regarding access to justice, the system suffers from inefficiency, delays and excessive bureaucracy, all exacerbated by corruption.

4 | Stability of Democratic Institutions

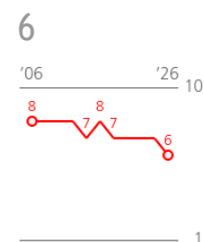
Democratic institutions generally fulfill their roles but are often inefficient because of corruption, a lack of transparency and ineffective oversight instruments. Even in this context, the problems of the Panamanian justice system stand out. The system has been subject to criticism over scandals including accusations of selling rulings, political pressure on Supreme Court justices, and assertions of ineptitude and selectivity on the part of the Attorney General’s Office.

Transparency International raised concerns about the deterioration of Panama’s electoral system following the Supreme Court’s ruling that the electoral tribunal’s decision to allow José Raúl Mulino to replace the ineligible Ricardo Martinelli (2009 – 2014) as presidential candidate was “not unconstitutional.” Adding to the tension, Martinelli sought asylum in the Nicaraguan Embassy in Panama while actively campaigning for Mulino on social media. The legal interpretation that validated Mulino’s candidacy led to mounting uncertainty, especially given the lack of a vice-presidential candidate on his ticket. After months of suspense, indecision and Mulino’s absence from debates, the Supreme Court confirmed his candidacy just two days before the election. Meanwhile, the electoral reform process further heightened tensions between the legislature and electoral institutions.

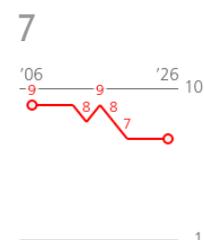
The relevant actors in Panama accept democracy and its institutions and rules in principle, though they disagree on whether or how they should be improved. For dominant actors, accepting the rules means multiparty elections with a strong clientelist component every five years, a disregard for checks and balances, and a low-intensity commitment to fighting corruption and money-laundering.

The emergence of new political forces and the rise of independent lawmakers in the Assembly in response to corruption and inefficiency in the system signal the institutionalization of alternative approaches to politics. Analysts interpret the 2024 election results as a significant blow to traditional parties, whose public image has

Performance of democratic institutions



Commitment to democratic institutions



long been tarnished by leadership that has been held hostage for decades by small groups engaged in patronage and the discretionary management of public funds. These new forces have also advocated dialogue, the open exchange of ideas, stronger oversight and the presentation of viable alternatives to business-as-usual policy decisions – developments that strengthen democracy and empower political parties.

5 | Political and Social Integration

Political parties in Panama function primarily as clientelist machines. Electoral rules encourage clientelism. Most political parties established after the transition to democracy have endured. Aside from the PRD, which has dominated the party system, the main parties include the Panameñista Party (PPA), Democratic Change (Cambio Democrático, CD), the Popular Party (Partido Popular, PP) and the Nationalist Republican Liberal Movement (MOLIRENA).

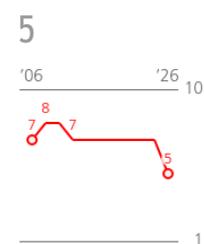
However, citizens' trust in these organizations has steadily declined in recent years. At least in part as a result of the population's discontent, traditional forces nearly disappeared, and new political forces emerged. Since the 2019 elections, three parties have arisen: the Realizing Goals Party (Realizando Metas, RM), Another Way Movement (Movimiento Otro Camino, MOCA) and the Alternative Independent Socialist Party (PAIS). The 2024 electoral results intensified the trend toward fragmentation. The entry of new parties, the increase in unaffiliated representatives (who became the largest minority in the chamber) and the loss of nearly two-thirds of the PRD's seats produced an Assembly in which no party commanded a majority. The effective number of political parties is now 5.5, the highest such figure since 1994.

Electoral volatility has varied between 20% and 30% in presidential elections. However, the 2024 elections marked a turnaround, with a significant share of votes shifting from traditional parties to nonpartisan candidates. Two new parties, RM and MOCA, secured almost 50% of the vote. Meanwhile, the traditional parties' share fell from 85% in 2019 to just 17%.

A defining trait of Panama's party system is its lack of ideological polarization, with most parties positioned near the political center except CD, which leans further right. Notably, no major left-wing party has emerged. In 1992, the religious group Asamblea de Dios attempted to form a party focused on moral reform. Since 2009, some Protestant church leaders have entered politics as party candidates, and by 2014 some had secured mayoral positions, funded campaigns and openly backed various candidates.

As of September 2024, the Electoral Tribunal of Panama reported that 53% of citizens of legal voting age had registered with a political party and that 77.6% of registered voters had cast ballots. Thus, despite growing distrust, disaffection and disapproval regarding the representativeness of political parties, Panamanians' political behavior reflects relatively high and stable levels of participation.

Party system



Panamanian civil society is made up of organized religious, professional and business organizations; unions; and various interest groups, including civil, environmental and cultural associations. Community organizations also exist, although they have very limited influence. In recent years, social movements and protest actions have gained strength.

The Catholic Church and major business associations are the best organized and most effective groups in civil society and are most likely to be represented in the political system. In recent years, the influence of evangelical groups in the public sphere has also grown.

Unions tend to be hierarchical and dominated by key leaders, who often negotiate with political parties (especially the PRD) to secure personal benefits for the union leaders themselves. An example is the 2022 – 2025 wage agreement between the Panamanian Chamber of Construction (CAPAC) and the National Union of Workers of Construction and Similar Industries (Sindicato Único Nacional de Trabajadores de la Construcción y Similares, SUNTRACS). SUNTRACS is the country’s most militant labor organization, with a track record of successful negotiations with business owners in its sector.

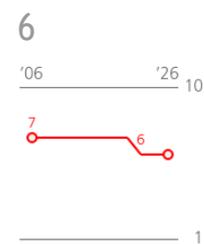
A study from the International Center for Political and Social Studies, based in Panama, reported that 4.7% of the population identified as members of a trade union, 41% as members of a church and 21% as members of a political party.

According to Latinobarómetro Corporation’s 2024 report, Panama showed the region’s third-greatest increase in popular support for democracy. In the 2024 survey, 54% of Panamanians said they supported democracy, an eight-point increase from 2023. Indifference toward authoritarianism also declined: 33% said they were indifferent in 2023, compared with 24% in 2024. This was the largest decrease in the region. Only 16% said they would prefer an authoritarian regime.

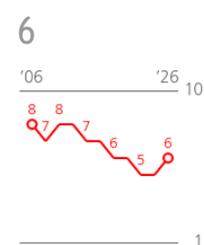
However, the figures on satisfaction with democracy were alarming. Only 35% of Panamanians said they were “very satisfied” or “rather satisfied” with how it functions. People with higher levels of educational attainment and higher incomes, as well as urban residents, were the groups most dissatisfied with the country’s political regime. Young people and women also tended to be comparatively more dissatisfied.

The Third Survey on Citizenship and Rights, whose findings were released by the Centro Internacional de Estudios Políticos y Sociales (CIEPS) in 2023, states that “more than 60% express negative feelings toward politics, such as distrust, indifference, boredom or anger, and the majority do not identify with either political parties or nonpartisan candidates.” Comparable data also appear in the Latinobarómetro survey results, in which nearly two-thirds of the citizens interviewed (64%) said they believed parties were not essential to democracy.

Interest groups



Approval of democracy



However, dissatisfaction with the functioning of democracy does not automatically lead to support for nondemocratic measures. For example, only 19% of Panamanians said they would support the president controlling the media in times of difficulty, and 78% indicated that they would not support a military government under any circumstances.

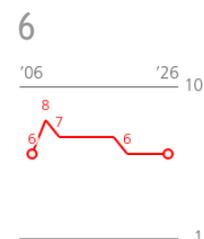
Data from CIEPS for 2023 indicate that many Panamanians are reluctant to engage in political discussions. Seven in 10 respondents reported that they speak about politics “rarely or not at all” with their peers, loved ones or family. Additionally, 68.6% said they neither share nor consume political content on social media or private messaging platforms. In Panama, this de-politicization is reflected in a strong sense of pragmatism, a defining trait of the country’s political culture. In the most recent Latinobarómetro survey, just 19% of Panamanians agreed with the statement “most people can be trusted” – the sixth-highest such value in Latin America.

The Catholic Church and evangelical churches have solidified their standing as the most trusted social institutions among citizens. The Catholic Church, in particular, may have strengthened its image through its involvement in the Single Dialogue Table during the mid-2022 protests, leading to an increase in the share of the public reporting trust in the institution from 70.8% in 2021 to 76% in 2023. Similarly, the share of respondents expressing trust in evangelical churches rose from 67.1% in the previous survey to 72.1% in 2023.

Conversely, the public tends to show limited trust in institutions associated with the state and the public interest. The government (a share of 40.6% expressing trust), political parties (41.0%), unions (30.1%), NGOs (31.2%) and multilateral organizations (29.9%) rank as least trustworthy in the eyes of the public.

Since Panama’s transition to democracy, the country has witnessed a growing number of dialogue initiatives, roundtables and agreements aimed at shaping its political and economic landscape. While these efforts highlight the fact that this is a political culture that values consensus, they also reflect the fragility of democratic institutions and their limited capacity to structure citizen engagement.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Poverty is Panama's most significant social issue. According to the Panamanian Ministry of Economy and Finance, 21.7% of the population lived in poverty in 2023, and 9.6% lived under conditions of extreme poverty. The share of the population living in poverty is highest in rural areas (44.7%), while urban areas are less affected (9.6%). Provinces with significant Indigenous populations are the most affected.

Panama's Gini coefficient of 48.9 in 2023 reflects its status as one of the most unequal countries in the world. However, this represented a slight improvement over the 2021 value of 50.9. In the capital city, wealth and opulence coexist with poverty belts that are impossible to hide. Outside the capital, marginalization is even more prevalent, particularly in predominantly Indigenous territories (comarcas indígenas). According to World Bank data, 76% of the population in these comarcas still lives in poverty. In its 2023 report, the World Bank identifies disparities in income-generating capacity, the fiscal system's limited ability to redistribute wealth, and exposure to natural disasters associated with climate change as key factors that perpetuate inequality and affect the poorest households. On average, women are more affected than men by poverty and inequality. Panama scored 0.7240 on the 2023 Global Gender Gap Index.

Despite strong economic growth in recent years and a decline in poverty rates, Panama has seen no significant change in its patterns of inequality. Moreover, there is a large urban-rural gap. Nearly half of the households in the comarcas lack access to essential services such as electricity, potable water and sanitation, and average levels of educational attainment remain very low compared with urban areas.

In the UNDP's Human Development Report 2023 – 2024, Panama was ranked 57th out of 190 countries in the Human Development Index (HDI), with a score of 0.820, placing it in the high human development category. Among the 22 Latin American countries, only Chile (0.860), Argentina (0.849) and Uruguay (0.830) achieved higher scores. Nevertheless, the HDI score in predominantly Indigenous territories is substantially lower than the national average. Some districts in Indigenous areas, such as Besiko, have scores as low as 0.331, lower than that of Somalia, the lowest-ranked country in the HDI.

Question
Score

Socioeconomic
barriers

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Economic indicators		2021	2022	2023	2024
GDP	\$ M	67396.4	76276.1	83318.2	86260.4
GDP growth	%	16.5	10.8	7.4	2.9
Inflation (CPI)	%	1.6	2.9	1.5	0.7
Unemployment	%	10.2	8.1	6.5	6.5
Foreign direct investment	% of GDP	2.7	3.2	2.9	3.8
Export growth	%	28.0	22.3	5.1	-
Import growth	%	31.5	24.0	7.1	-
Current account balance	\$ M	-832.3	28.8	-2581.0	1672.2
Public debt	% of GDP	54.4	52.7	51.2	57.4
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-6.6	-	-	-
Tax revenue	% of GDP	7.5	-	-	-
Government consumption	% of GDP	13.7	12.8	12.2	-
Public education spending	% of GDP	3.7	3.4	2.5	-
Public health spending	% of GDP	5.1	4.8	-	-
R&D expenditure	% of GDP	0.2	0.2	0.2	-
Military expenditure	% of GDP	-	-	-	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

Article 295 of the Panamanian constitution guarantees free trade and competition and prohibits actions with monopolistic effects that harm the public. However, the rules are not consistently applied or uniform for all market participants. The primary challenges include the consistent growth of the informal economy and a weak institutional framework for the support of micro, small and medium-sized enterprises (MSMEs).

For MSMEs, key obstacles include limited access to funding, insufficient training in the soft skills necessary for effective business management, difficulty establishing structured value chain processes, and inefficient allocation of financial resources. Regarding informality, data from the Labor Market Survey indicates that as of October 2024, 49.3% of Panama’s workforce was active in the country’s informal sector – up from 47.4% in 2023.

Another pressing issue in the Panamanian market is corruption in public procurement. Upon taking office, President José Raúl Mulino said the existing public procurement law “facilitates corruption” and announced plans to present a “comprehensive reform” to parliament. His remarks were partly in response to allegations that a former official of the Comptroller General’s Office had engaged in illicit enrichment through bribes from state contractors. Local press reports suggested that the scandal had drawn the attention of the U.S. Federal Bureau of Investigation (FBI).

The Ministry of Commerce and Industries issued Executive Decree No. 165 on July 1, 2014, to curb speculation and ensure consumers have access to staple food products at reasonable prices. However, the president indicated during the review period that price controls on essential goods would be lifted in early 2025.

In the banking sector, Panama remains a major financial hub with no restrictions on the inflow or outflow of funds. For the purposes of money-laundering oversight, banking regulations generally require that transactions exceeding \$10,000 be declared.

Finally, Article 293 of the constitution stipulates that only Panamanian citizens or companies (with certain exceptions) may engage in retail trade. In addition, at least 49 professional fields – primarily in health, law and engineering – are restricted to Panamanian nationals.

Market
organization

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Law 45 of 2007 prohibits monopolistic and unfair commercial practices, regulates consumer relations, and outlines consumer rights. It establishes suppliers' obligations toward consumers. Under Panamanian law, any act, contract or practice that restricts, reduces, obstructs, impairs or otherwise undermines free economic competition and fair market participation in the production, transformation, distribution, supply or commercialization of goods and services, as defined by law, is prohibited.

The Consumer Protection and Competition Agency (ACODECO) was established in 2007 as a supervisory body. ACODECO is a member of the International Competition Network. The OECD reports that, despite resource constraints and limited government support, ACODECO has effectively carried out its mandate. As of 2024, the agency had investigated nearly 1,000 companies and filed lawsuits against more than 210 for monopolistic practices. Investigations have targeted various sectors, including broadcast television, customs brokerage, insurance, laundromat operation, wholesale fuel distribution, beer production and marketing, advertising and economic agents involved in public bidding, among others. Any resulting cases are handled by specialized courts focused on free competition and consumer affairs.

Despite existing legislation, Panama's economy remains distorted and largely oligopolistic. Market concentration is evident in key sectors such as telecommunications, energy, fuel, banking, food imports, ports and pharmaceuticals. In 2024, the government acknowledged cartelization in the pharmaceutical sector and announced plans to file complaints with the Antitrust Agency against companies in the industry. Concerns over increasing consolidation in the telecommunications sector were raised in the same year.

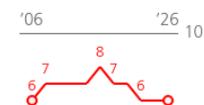
The government also provides extensive subsidies for urban transportation, electricity supply, agricultural production and certain industrial activities. In 2024, the Ministry of Economy and Finance launched the Global Credit Program for Sustainable Economic Reactivation through an agreement with the Inter-American Development Bank (IDB), with available credit totaling PAB 160 million. The initiative aims to enhance productivity and sustainability in Panama, with a particular focus on expanding access to credit for MSMEs.

Panama is open to foreign trade and investment and does not discriminate against investors based on nationality. Thus, foreign trade is largely liberalized, with relatively low, uniform tariffs and few non-tariff barriers. In 2023, the simple average of applied most-favored-nation (MFN) tariffs was 5.1% (12.1% for agricultural products and 4% for non-agricultural products).

Panama is currently a party to the following free-trade agreements (FTAs) and international economic organizations: the Central American Integration System (SICA), the Central American Common Market, the Latin American and Caribbean Economic System (SELA), the Association of Caribbean States (ACS), and the

Competition policy

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Liberalization of foreign trade

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Mesoamerica Project. It has a number of bilateral FTAs, including with all Central American countries, Cuba, Chile, Singapore, the United States, Canada, Taiwan, Colombia, Mexico, the Dominican Republic, Peru, Israel and the European Union. A treaty with China is being negotiated despite existing commercial agreements.

In the first eight months of 2024, Panama exported goods worth PAB 860.6 million, of which PAB 637.3 million were registered goods exports and PAB 223.2 million were value-added exports from special regimes (free-trade zones and the Panama Pacifico Special Economic Area). The latter category performed best, rising by PAB 38.8 million, a 21% increase compared with the same period in 2023, when they reached PAB 184.5 million.

Bananas remain the primary export product, accounting for 13.8% of the total, followed by frozen shrimp (8.3%), raw cane sugar (7.9%) and fish fats and oils (6.7%). Other notable exports include iron and steel waste, raw teak, palm oil, fishmeal, antihistamine and antipyretic drugs and decaffeinated roasted coffee. Together, these 10 products account for 58.9% of total exports. In terms of export destinations, Panama's main markets in 2024 were the United States, the Netherlands and Taiwan.

With respect to imports, the Panamanian Food Agency (APA) announced that between January and September 2024, Panama received about 47,453 containers of products for human and animal consumption. The top imported products include cereals, alcoholic beverages, vinegar, vegetables, fruits and a variety of prepared foods, such as mayonnaise, canned goods and spices. Imports also included fats, oils, roots and tubers. The products originate from numerous countries, including the United States, Costa Rica, Canada, Guatemala, Peru, Mexico, Türkiye, China, Colombia and Argentina, which collectively account for most imports to Panama. The United States led with 25,176 containers of products such as yellow corn, soybean meal and paddy rice. Costa Rica followed with 4,165 containers, mainly beer and oils.

Thus, there are no limitations on foreign trade, although red tape and corruption are obstacles in this area.

Panama maintains an open and globally connected banking system, allowing domestic and international banks to operate within its financial sector. The country's banking industry features strong regulatory oversight, a conservative approach to risk management and adherence to international financial standards. Panama's banking framework took shape in 1970 with the creation of the National Banking Commission, which laid the groundwork for the nation's role as a financial hub. In 1998, the commission was restructured as the Superintendency of Banks (SBP), granting it financial and administrative autonomy and aligning regulatory practices with the Basel Committee's principles.

Banking system

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Panama's banking system consists primarily of private banks, many backed by foreign capital. In recent decades, Panama has solidified its position as a major financial hub in Latin America. Several factors have contributed to this status, including business-friendly banking regulations; government incentives; a strategic geographic location serving as a gateway between North and South America; a stable macroeconomic environment; and the widespread use of the U.S. dollar, which eliminates exchange rate risks. In addition, Panama's legal framework has historically attracted international investors and financial institutions seeking a secure and efficient banking jurisdiction.

As of the third quarter of 2024, Panama's International Banking Center (CBI) – a term that effectively refers to the country's banking sector – exhibited strong financial health, with ample liquidity and capital reserves. The liquidity index stood at 54.95%, which meant that banks have sufficient resources to meet short-term obligations and have a strong ability to manage economic fluctuations or sudden withdrawals. Meanwhile, the capital adequacy ratio reached 15.65%, exceeding regulatory requirements and reflecting a resilient and well-capitalized financial system. The ratio of non-performing loans has been persistently low; it stood at 2.5% in 2022, according to the World Bank. These indicators demonstrate the strength and stability of Panama's banking sector, helping sustain trust among depositors, investors and international financial partners.

The International Banking Center (IBC) has continued to expand, reporting a 6.9% year-over-year increase in total assets, reaching \$151.6 billion by the end of the period. This growth reflects the sector's operational efficiency and its ability to attract capital through the expansion of productive assets. The value of total deposits has also seen solid growth, rising by 6.8% within the same time frame. Furthermore, ongoing digital transformation efforts, increasing financial inclusion measures and a rise in fintech collaborations, are expected to further strengthen the sector's competitiveness in the coming years.

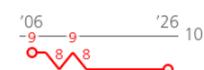
8 | Monetary and fiscal stability

Under a 1904 monetary agreement with the United States, the U.S. dollar is Panama's legal tender. The country does not issue its own paper currency and lacks an independent monetary authority. The government only mints coins for regular use, matching the size and denominations of U.S. coins, which also circulate freely. As a result, Panama is unable to implement its own monetary policy or adopt stabilization measures.

According to the Economic Commission for Latin America and the Caribbean (ECLAC), the real effective exchange rate index (2015=100) has remained relatively stable over the past decade, though it has recently depreciated slightly. While dollarization has generally supported economic stability, it also makes Panama highly dependent on U.S. monetary authorities, particularly as U.S. diplomatic relations with Panama and its canal evolve.

Monetary stability

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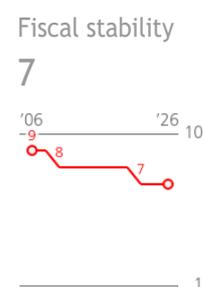
In 2024, Panama's inflation rate was estimated at 1.29%, reflecting a 0.2 percentage point decrease from the previous year. Inflation is expected to rise slightly in 2025 before stabilizing at about 2% in the following years. Since the 1960s, Panama has maintained relatively low inflation rates compared with other nations, averaging 2.2% annually. This is due in part to its use of the U.S. dollar. Additionally, inflationary pressures in Panama are typically not driven by domestic factors but by external influences, as the country imports hydrocarbons, gas, food and a wide range of other goods.

In 2024, Fitch Ratings reaffirmed Panama's BB+ credit rating with a stable outlook. The assessment reflects the country's high gross domestic product (GDP) per capita, low inflation rate and macro-financial stability supported by dollarization, as well as strong medium-term growth prospects, particularly in logistics and in the strategic operations of the Panama Canal.

Despite the lack of institutional safeguards and ad hoc policy changes, budgetary policies have generally promoted fiscal stability. In 2024, however, Panama's Non-Financial Public Sector fiscal deficit soared to 7% of GDP, up from 3% in 2023, according to data released by the Ministry of Economy and Finance (MEF). At the end of November, total public debt stood at \$53.873 billion. Barclays projects that the 2025 fiscal deficit will reach 4.5% of GDP, exceeding the limit established by the Fiscal Responsibility Law. As a result, the government could be forced to issue at least \$3.5 billion in debt to cover its needs, heightening economic risk.

The MEF submitted a new bill to the Cabinet Council in October 2024 to amend the Fiscal Social Responsibility Law 34 of 2008. The bill, a priority of the current administration, was approved by the National Assembly and seeks to strengthen Panama's fiscal framework, guaranteeing responsible, transparent and sustainable management of state resources. In the context of a growing fiscal deficit and challenging economic projections, the bill establishes new fiscal rules and goals that will gradually reduce the net public debt of the Non-Financial Public Sector to 50% or less of nominal GDP over a 10-year period, starting in fiscal 2026. Subsequently, the debt level is expected to continue to decline to 40% of GDP over the following five years. The bill establishes a limit of 4% for the deficit in the Non-Financial Public Sector Fiscal Balance for 2025, 3.5% in 2026, 3% for 2027, 2.5% in 2028, 2% in 2029 and 1.5% from 2030 on. According to the MEF, this initiative responds to the urgent need to reduce the fiscal deficit, which has increased significantly in the last decade because of the decline in tax revenues and the increase in current expenditure obligations, exonerations and tax incentives.

The current administration is also promoting a strategy to increase Treasury revenue. A bill was approved that establishes a tax amnesty program allowing taxpayers to settle outstanding debts with the General Revenue Directorate (DGI) without surcharges, fines or interest. The moratorium was extended until December 31, 2024. However, the country's budgetary and economic context has led a number of analysts and economists to argue that fiscal reform is inevitable.



9 | Private Property

Article 47 of the constitution recognizes the right to private property, subject to social priorities. Despite constitutional and legal guarantees, seizure and misappropriation, primarily through fraud and trespassing, pose risks to property owners. Irregular land occupation is a serious problem. The lack of comprehensive policies addressing the housing deficit and ensuring timely access to property titles has only exacerbated this issue.

For example, in 2024 the National Association of Cattle Ranchers of Panama (Anagan) called on the national government to guarantee respect for private property, especially in the province of Bocas del Toro, where producers, peasants and families are being affected by illegal land invasions.

To counteract these practices, Article 229 of the Penal Code stipulates that anyone who deprives another person of the use or possession of land or property, whether through violence, threats, deception, betrayal of trust or secrecy, is subject to punishment. Article 229A, introduced in 2013, addressed the illegal occupation of another's property, land or building. However, it was repealed after being declared unconstitutional on the grounds that it prevented the exercise of acquisitive prescription – a legal process allowing the acquisition of property that is being occupied. In July 2024, the Ministry of Housing and Land Management (Miviot) submitted a bill to the National Assembly addressing penalties for the invasion of private or state-owned land.

In Panama, the constitution protects the operations of private companies. The country's legal framework guarantees security and clarity for foreign investors seeking to incorporate in Panama. Panama provides fiscal advantages – that is, a reduced tax burden – resulting in considerable tax savings for companies. However, foreign investment is restricted in sectors of the Panamanian economy considered to be of national interest, creating a barrier to investment.

Except for allocations of state-owned real estate, there have been no privatizations of state-owned properties in recent years. The main wave of privatizations occurred in the first years after the transition to democracy. With a debt of about \$7 billion and a need for funds to make necessary investments to boost the national economy, the newly formed government of Guillermo Endara (1989 – 1994) took the first steps toward what is now known as the Privatization Program of State Entities. Subsequently, President Ernesto Perez Balladares (1994 – 1999) completed the plan. To foster entrepreneurship, Panama has introduced various initiatives to streamline company formation, with the goal of stimulating economic growth and job creation. In this context, Law 186, enacted in December 2020, established a new legal entity known as an “entrepreneurship company” with the aim of encouraging and supporting new business ventures. Among its key advantages, the law provides several tax benefits, simplifies complex legal procedures and reduces excessive costs.

Property rights

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Private enterprise

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Finally, regarding the protection of private companies, there have been instances of economic extortion involving senior officials from the executive branch. Although its magnitude is not comparable with that of the northern Central American countries, extortion is a growing phenomenon, as the rate of extortion per 100,000 inhabitants has increased fivefold in recent years. The main form of extortion is the “gota a gota” loan, a quick cash loan at high interest rates that make repayment difficult. Those who cannot pay are threatened and even forced to commit illegal acts.

10 | Welfare Regime

Article 105 of the Panamanian constitution guarantees access to both public and private health care services for all individuals, regardless of legal status. This constitutional provision ensures that health care is accessible to citizens and foreigners alike, reflecting Panama’s commitment to universal health care. Total health spending amounts to 6% of GDP, but challenges remain in translating these resources into high-quality services for all.

In recent years, Panama has adopted a health care model based on the Primary Health Care (PHC) Strategy. This approach emphasizes preventive care and access, particularly in rural and underserved areas. Panama’s health care services are divided into two major public systems: one overseen by the Ministry of Health (MINSa) and the other by the Social Security Fund (CSS). Approximately 90% of the population has access to services from at least one of these institutions, regardless of formal social security affiliation. The CSS alone is estimated to cover about 84% of the population, making it the dominant provider of medical care in the country.

Beyond health care, the CSS administers retirement pensions, maternity benefits, sickness coverage and disability support. However, system sustainability is a growing concern. In 2005, reforms created two separate pension systems within the CSS. Individuals over 35 at the time of the reform remained in a pay-as-you-go system, while younger workers were placed in an individual capitalization scheme. Nearly two decades later, the first system is financially unbalanced because it consists predominantly of retirees and inactive individuals, which places immense pressure on the public finances.

To address this looming crisis, President Mulino’s administration has proposed a reform to increase the retirement age and raise employer contributions. The proposal also includes transferring pension fund management to a private entity to improve efficiency and ensure long-term sustainability. However, labor unions and civil society groups strongly oppose the reform, arguing that it undermines workers’ rights and could reduce future pension benefits. The proposal is under negotiation in the National Assembly, with public debates on the issue expected to continue.

Social safety nets

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In addition to health care and pensions, Panama has a poverty reduction program known as the Opportunities Network Program. This initiative provides financial aid through conditional cash transfers (CCTs) to households living in extreme poverty, thereby improving living conditions and promoting social inclusion. Moreover, a recent government initiative, the Colmena Plan, aims to reduce poverty and social inequality by focusing on the country's most vulnerable communities. According to government sources, the program prioritizes rural and majority-Indigenous regions, seeking to enhance social inclusion and sustainable development. However, Panama lacks a comprehensive unemployment safety net, leaving many workers vulnerable to economic downturns.

For non-citizens, gaining access to social assistance remains a challenge. Although legalized foreign residents are technically eligible for certain benefits, the discretionary nature of social aid distribution often leads to such individuals' exclusion. This issue is especially pronounced for migrant workers and asylum-seekers, who frequently struggle to access health care and social protection services. Panama's social safety net is constrained by inadequate government funding. In 2023, ECLAC reported that Panama had the lowest level of social spending in Latin America, at 7.5% of GDP – well below the 11.5% regional average. By contrast, Uruguay and Chile respectively allocate 16% and 18.3%. Public spending on health care is particularly low at just 2.3% of GDP, limiting service expansion and infrastructure improvements. Future reforms must balance fiscal sustainability with stronger social protections, as pension negotiations and potential spending increases will shape welfare policies in the years ahead.

Article 19 of the constitution prohibits discrimination based on race, birth status, disability, social class, sex, religion or political opinion. However, various forms of discrimination persist and have significant economic and social consequences.

In the 2023 Global Gender Gap Index, Panama was ranked 58th globally, with a Gender Inequality Index score of 72.4%. This is a decline from the previous year, when the country was ranked at 40th place. In addition, women are under-represented in leadership positions in both the public and private sectors, and gender-based violence is also an issue. Women occupy only 22.5% of legislative seats. Furthermore, rural and Indigenous women still face additional barriers due to a lack of access to resources, services and other essentials.

Ethnic discrimination remains a constant concern. In Panama, the unemployment rate within the Indigenous population is 62.8%, and majority-Indigenous provinces remain the poorest in the country. Data indicate that Indigenous workers are more likely to be self-employed or unpaid family workers, with informal labor as their primary means of subsistence. Similarly, many immigrants remain confined to the informal sector and often face police harassment and other forms of mistreatment. Moreover, Indigenous and immigrant workers are disproportionately employed in agriculture and domestic work, where wages are roughly one-third of those in other economic sectors.

Equal opportunity

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Finally, Panama is one of the few countries in the hemisphere that does not recognize LGBTQ+ rights. Although the movement has advanced with regard to political participation and calls for democratic spaces, Panama's LGBTQ+ community suffered a setback in early 2023 when the Supreme Court of Justice (CSJ) closed the door to equal marriage rights.

11 | Economic Performance

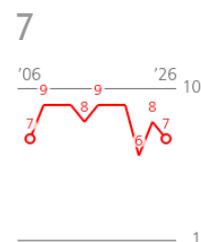
Panama is a prominent regional logistics and financial hub. It ranks as the 78th-largest economy globally by GDP. Recently, growth rates have declined, but less than expected, with real GDP growth decelerating from 7.4% in 2023 to 2.8% in 2024. This reflected a slowdown after several years of post-pandemic catch-up, as well as the effects of mine closures. In 2024, GDP per capita (PPP-adjusted) was estimated at \$36,600, up from \$35,900 in 2023. Growth has been predominantly fueled by the construction, transportation and warehousing, wholesale and retail trade, utilities, business services and hospitality sectors, which together employ 45% of the labor force.

Over the past three decades, this growth has contributed to job creation and a significant reduction in the poverty rate, which declined from 48.2% in 1991 to 12.9% in 2023, according to the World Bank. However, by the end of 2024, the unemployment rate had risen to 9.5%, marking an increase of 2.1 percentage points from 2023, when it stood at 7.4%.

Moody's and Barclays forecast 4.5% growth for 2025, while the World Bank projects 3.5% and the Economist Intelligence Unit (EIU) expects 3.3%. However, that optimism is tempered by the economic challenges that defined 2024, with growth in 2024 expected to be limited to 2.5%. These challenges include the anticipated closure of the country's largest copper mine and diplomatic tensions with the United States.

Panama's public debt totaled \$42.94 billion in 2023, amounting to 52.39% of GDP, with per capita debt of \$9,642. In December 2024, Panama posted an overall year-over-year deflation rate of 0.2%, although the monthly Consumer Price Index (CPI) rose by 0.2%. Food and non-alcoholic beverage prices rose by 1.1%, while communication costs fell by 1%. For 2025, the International Monetary Fund projects an average inflation rate of 2%.

Output strength



12 | Sustainability

Panama is among the countries most vulnerable to climate-induced natural disasters and shifting weather patterns, including more frequent and intense El Niño and La Niña events that contribute to severe droughts and floods. Majority-Indigenous territories, in particular, face mounting climate-related challenges, such as rising sea levels that threaten livelihoods and traditional ways of life.

The Panamanian constitution establishes the state's responsibility to safeguard environmental protection, sustainability and ecological balance (articles 118 – 119). In recent years, the country has made notable progress positioning itself as a sustainability-driven and environmentally conscious nation. During the 2019 – 2024 period, the government introduced key reforms aimed at promoting the energy transition and climate resilience. These initiatives seek to decarbonize the transportation sector while mitigating the broader economic impacts of climate change.

In line with these efforts, Panama has partnered with the World Bank to further reduce emissions and advance climate adaptation. In March 2024, the World Bank's board approved a new project under the Development Policy Loans (DPLs) framework for the purposes of climate resilience and green growth. This initiative supports key policy reforms to decarbonize the transportation and energy sectors and strengthen Panama's capacity to adapt to climate change.

Although President Mulino has acknowledged environmental concerns, his administration has prioritized economic growth and infrastructure development, and environmental priorities have not featured prominently in his policy agenda. During his campaign, Mulino emphasized the topics of job creation and infrastructure more than he did environmental issues, though he proposed building water treatment and recycling plants to address specific environmental challenges.

Panama faces significant challenges in the areas of waste management and recycling. The country's landfills are overburdened, and the national recycling rate is only 3% – far below the global average. Moreover, recycling efforts are largely concentrated in Panama City, while rural areas have minimal access to recycling programs. Addressing these gaps will be essential to Panama's broader environmental sustainability efforts.

Environmental
policy

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Panamanian legislation stipulates that all children, adolescents and young people residing in the country have the right to receive a comprehensive education from the state without discrimination. However, rural and majority-Indigenous areas often have limited access to quality educational infrastructure, teaching resources and trained teaching staff, which negatively affects students' academic performance. Despite efforts to improve, national and international evaluations indicate that student learning outcomes in mathematics, science and reading trail those seen in other countries in the region. Although overall literacy rates are high, at 96.3%, international evaluations indicate that reading comprehension falls below expected levels. In the 2022 Programme for International Student Assessment (PISA) report, the country was ranked 74th among 81 countries evaluated. Panama's Ministry of Education announced that the country would not participate in the PISA 2025 test.

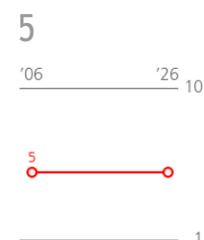
University rankings show that Universidad Tecnológica de Panama is the best national university. It is ranked No. 21 in Central America and No. 137 in Latin America, a relatively low standing given that Panama is the region's richest country.

In 2022, education spending amounted to 3.4% of GDP. As part of a national mobilization campaign, teachers' unions called on the government to allocate 6% of GDP to education. A law to that effect was approved, committing to a 7% rate. However, Mulino's government has been reluctant to comply with this commitment.

According to the 2023 census, there were 423,036 children between the ages of six and 11 in the country's schools. That was 32,051 more than in the 2010 census. In addition, the number of children and adolescents ages five to 19 enrolled in the educational system reached 918,336, while in 2010 the figure was 836,109.

Finally, Panama invests 0.13% of its gross domestic product (GDP) in research and development. More than 95% of this investment comes from the public sector. Thus, relative to GDP, Panama's performance falls short of expectations for its level of development. The country has made economic progress, but its education system has not kept pace.

Education policy /
R&D



Governance

I. Level of Difficulty

Panama is a tropical country with jungle landscapes in some areas, although there are also significant mountain ranges. The country's area is approximately 78,200 square kilometers. To the southeast, the Darién jungle serves as a natural border between Panama and Colombia. Earthquakes are frequent but do not cause significant damage. Although not as devastating as in neighboring countries, natural disasters are increasingly affecting the country. Torrential rains and floods have increased in recent years, as has the intensity of dry-season droughts, causing negative impacts on the environment. In 2023, Panama experienced a drought that reduced transits through the interoceanic canal, which operates on fresh water. Although the situation normalized in 2024 with the rainy season, climate change is likely to pose an important challenge to the canal's water availability. Furthermore, heavy rainfall caused rivers to overflow; damaged more than 600 houses; led to landslides; caused the collapse of some roads; and resulted in the loss of crops, especially rice, and in damage to water treatment plants.

The country's privileged geostrategic position has allowed it to serve as an international hub for goods, services, people and capital, and therefore for trade, banking and logistics activities. This position has produced a distinctive economic structure in Panama, supported by powerful, specific engines of growth, such as the Panama Canal and related activities (including ports), the Colón Free Zone, tourism and airport services, and the International Banking Center (the country's banking sector).

However, the country is also held back by poor infrastructure (especially with regard to land transportation), which leads to heavy traffic jams, among other problems. A lack of investment in and maintenance of basic infrastructure such as electricity and transportation networks is one of the country's main challenges. Poverty and inequality also undermine development. Significant structural gaps persist in the country, reproducing conditions of poverty and extreme poverty. Although some of the vertical gaps are narrowing, this process is occurring very slowly and unevenly between urban and rural areas and among the country's different territories. These challenges have contributed to poor human capital formation. The country's labor force is on average poorly educated (except in enclaves such as the Panama Canal).

Structural
constraints

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Overall, clientelism remains the main incentive for political participation, which is usually limited to voting every five years. Levels of social trust are low, although the country has a history of civil society associations that dates back almost two centuries, beginning with the founding of the Sociedad de Amigos del País in the 1820s. Professional and relief societies also operated in Panama throughout the 19th century. After the creation of the Republic of Panama in 1903, economic growth and U.S. influence contributed to the formation of lasting professional and civil society associations. Today, although numerous civil society associations exist, many are perceived as being penetrated by business or political interests.

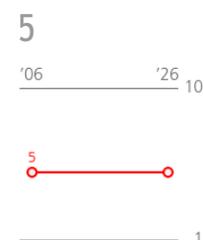
Over the past 30 years, Panamanian civil society has grown into a powerful force for social change, addressing issues such as environmental conservation, human rights and government transparency. Low levels of trust in institutions due to corruption and inequality have driven the rise of civil society organizations (CSOs), NGOs and grassroots movements. Digital platforms have amplified civic engagement, enabling rapid mobilization. In recent years, mobilization by social collectives, as well as in the form of street demonstrations and road blockades, has increased. Rising prices for food, medicine and fuel have intensified public discontent and spurred new political and social demands. However, challenges remain, including political polarization, rural disengagement and resource constraints.

Although the level of political debate is rather precarious and tends toward personalism, political violence has not been a problem since the transition to democracy (1989 – 1994). The main cleavage during the military dictatorship (1968 – 1989), which divided society between those who supported the regime and those who opposed it, has largely healed.

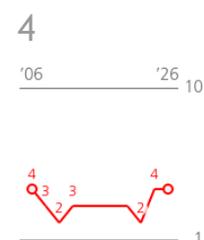
However, 2022 marked a turning point: mobilizations by social collectives proliferated, as did street demonstrations and roadblocks. In October and November 2023, the largest protests in the country's recent history broke out, triggered by the renewal of copper exploitation by Minera Panama (First Quantum Minerals) in biodiverse settlement areas. The demonstrators protested against the likelihood of environmental damage, corruption surrounding the contract's approval and the idea of a new foreign enclave. The Supreme Court finally ruled that the contract violated the constitution on 25 grounds.

Increased social mobilization, unequal opportunities, social marginalization, low-quality public services, long-unmet fundamental rights, and public and private corruption have fueled popular discontent. The criminalization of protests, the prosecution of social leaders, the persecution of social organizations and a stigmatizing media campaign against the popular movement are all creating fertile ground for exclusionary discourses and further aggravation of social conflicts.

Civil society traditions



Conflict intensity



II. Governance Performance

14 | Steering Capability

Upon taking office, President Mulino prioritized investment promotion, financial stability, social improvement and infrastructure development. His government plan focuses on the generation of sustainable economic growth, targeting a 7% rate of nominal GDP growth and the elimination of unemployment. In his inaugural cabinet meeting, he approved the “First Employment” program to support young job seekers. Additionally, his administration proposed major Social Security Fund reforms aimed at ensuring financial sustainability for the system, including raising the retirement age, adjusting contributions and creating a unified capitalization system with a solidarity guarantee.

Regarding infrastructure, the government intends to implement an ambitious plan for rehabilitating and building roads, as well as for speeding up water supply works. One priority is the improvement of the transport network, including the construction and renovation of roads, bridges and airports throughout the country. Additionally, work is underway to expand the metro system in Panama City, with the goal of alleviating traffic congestion and enhancing urban mobility.

Furthermore, the government has announced its intention to promote innovation and technology as engines of economic growth. This includes the creation of incentives for research and development, as well as the promotion of emerging technology sectors. The administration has shown a commitment to strategic planning and sustainable development. For example, it has placed a high priority on digitalization in rural schools and the improvement of hospital infrastructure, indicating an orientation toward planned and structured projects. On the other hand, the Secretariat of Presidential Goals has played an active role in coordinating and monitoring key projects. Officials from this secretariat have participated in economic forums to explain how the government’s strategic projects will be managed and coordinated so as to ensure their alignment with national objectives.

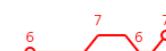
Another priority is to improve tax-system management by increasing the clarity and credibility of tax regulations and improving the Fiscal Council’s independence, with the goal of ensuring transparency and efficiency in public administration. Another objective is to enhance the country’s fiscal position, improve competitiveness and boost efficiency of the public administration, with the aim of attracting more foreign direct investment. Measures include the creation of a one-stop shop for business startups, the performance of audits of foreign-owned concessionaires, a simplification of procedures and the creation of a business-friendly environment.

Question
Score

Prioritization

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Finally, President Mulino's government plan addresses education and vocational training. He has stressed the importance of improving the quality of the education system and providing technical and vocational training to the labor force.

Since José Raúl Mulino assumed the presidency in July 2024, his government has implemented a number of key initiatives. One of the most significant early achievements of Mulino's administration was the approval of an economic reform package aimed at revitalizing Panama's economy, which was heavily impacted by the COVID-19 pandemic. This package is designed to attract foreign investment and stimulate sectors that were hit hardest by the crisis. A key element of the reform includes offering tax incentives for small and medium-sized enterprises (SMEs). Additionally, the government has introduced credit facilities to help entrepreneurs, particularly in sectors that are especially vulnerable to economic downturns.

Infrastructure development has also been a priority for Mulino, particularly the long-awaited Panama-David railway project. The creation of the National Railway Secretariat marks a critical step toward fulfilling this campaign promise. The railway aims to connect Panama City to the western province of Chiriquí, thereby enhancing the country's transportation network, boosting regional economic activity and improving the logistics sector.

Another key policy area has been the energy sector. Mulino's government confronted the energy distribution company Elektra Noreste S.A. (ENSA) for its poor service, imposing a fine of \$7.3 million. This action was in response to widespread blackouts and inefficiencies in the country's energy distribution system, which had left many Panamanians without reliable access to electricity. By holding companies accountable, Mulino seeks to improve service delivery and stabilize the energy sector in the long run.

In the social sector, the government has placed significant emphasis on education and health care reforms. The initiative includes equipping schools with digital tools and providing training for teachers. New projects have been launched to improve hospital infrastructure and expand primary care services, particularly in vulnerable regions.

Mulino has also taken steps to address the legacy of corruption from the previous administration. He made public the lists of economic subsidies provided by the Institute for the Training and Development of Human Resources (IFARHU), which has faced criticism for mismanagement. He has also targeted the National Lottery, questioning its costs to the public and the lack of transparency in its operations.

Nonetheless, opposition groups have criticized his government for failing to reach a public consensus when implementing some reforms, arguing that certain policies have been rushed or have not involved sufficient consultation with relevant stakeholders. Moreover, protests have arisen over what some see as delays in addressing the climate crisis, which has become an increasingly important issue for the Panamanian public. Environmental groups have expressed frustration over the perceived slow pace of government action on climate change.

Implementation

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In summary, Mulino's first months in office have seen a mix of progress and controversy. While his government has made significant strides in the areas of economic recovery, infrastructure development and social welfare, it has also encountered challenges in eliciting political consensus and addressing urgent issues such as climate change. Moreover, few concrete results of government initiatives are as yet visible.

The government has a limited capacity for policy learning, exacerbated by the practice of replacing senior and mid-level officials with new political appointees when a new administration takes office. Many incoming officials lack relevant qualifications, and thus face a steep learning curve.

Bureaucratic appointments often serve as rewards for loyal supporters and donors. There is no formal framework for learning or innovation. International influence has had little impact on civil service professionalization. Many public employees are poorly trained, underpaid and lack career growth opportunities, leading to frustration and inefficiency. As a result, administrative agility is weak, and procedural simplification is often neglected, hindering necessary reforms.

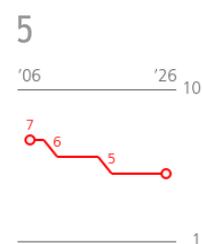
Thus, Panama's bureaucracy is one of the biggest obstacles to the country's development and progress. The administrative system and the regulations governing institutions are plagued by cumbersome procedures, unnecessary delays and a lack of coordination; these factors undermine government efficiency and effectiveness. The areas where learning is most limited are those linked to corruption and the lack of transparency; however, there are also serious challenges with regard to improving administrative efficiency, overcoming resistance to change in the education system and introducing digital technologies in public services.

15 | Resource Efficiency

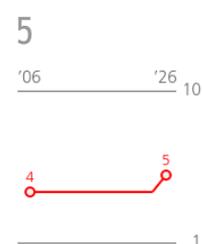
The Panamanian government has long struggled with inefficiencies in managing its human, financial and organizational resources. One of the primary challenges is the high level of politically motivated dismissals and appointments, which account for approximately 25% to 30% of personnel changes every five years. This practice undermines the stability and objectivity of the public administration. Additionally, the government faces systemic issues such as corruption, clientelism and a lack of transparency. Budgetary management is faulty. While the Comptroller General engages in budget oversight, deficits have grown, fiscal data are not published and expenditure controls are weak.

Despite these deep-rooted issues, the Panamanian government has been taking important steps in recent years to enhance the efficiency of its resource use and improve public sector performance. Several key projects aimed at modernizing the public administration and streamlining government operations have been initiated.

Policy learning



Efficient use of assets



One major initiative aimed at improving taxpayer services and collection management is the development of an Integrated Solution for Taxpayer Service Management and Collection Management (CRM). This project aims to consolidate all interactions between taxpayers and the government into a single, integrated digital platform. This is expected to enhance service quality and increase the efficiency of issue resolution. A critical feature of this new system is the incorporation of artificial intelligence, including a chatbot designed to anticipate user needs and deliver accurate, fast responses.

Alongside this, the government is focusing on better utilizing data through specialized consulting services. These services aim to design and implement a comprehensive model for the exploitation and analysis of data from multiple sources, such as electronic invoices and tax returns. Through the use of data science algorithms and machine learning techniques, Panama aims to enhance its data processing capabilities. In addition to digital initiatives, Panama is also investing in upgrading its technological infrastructure to enhance operational efficiency and ensure the security of government data.

To sum up, while the Panamanian state still faces significant challenges in managing its resources effectively, recent efforts to modernize public administration signal a shift toward greater efficiency and improved service delivery.

President Mulino's administration faces a fragmented and polarized Assembly. His Realizing Goals Party (RM) won only 14 of the 71 seats in the National Assembly, so it is forced to seek support elsewhere. However, Mulino emphasized from the beginning that his position was not to seek parliamentary alliances. He stated that he would present the proposals that he deemed necessary for the country and exercise his right to veto other measures in case of disagreement.

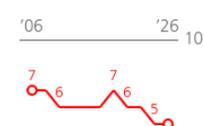
Mulino's ties to former President Martinelli, who faces a prison sentence for money-laundering, could complicate alliances, particularly with the center-left PRD. Balancing loyalty to Martinelli with efforts to establish his own political brand may strain relations within his party and legislative bench.

In the governance sphere, Mulino prioritizes policy coordination, transparency and accountability. He has pledged to collaborate with the media and other entities to ensure transparency, and has introduced measures to assess the performance of public servants and enhance oversight of their activities.

Despite the fragmentation of power, consensus is more likely on nonpolarizing issues such as the Panama Canal's capacity crisis, which has been exacerbated by drought.

Policy
coordination

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Despite anti-corruption laws and oversight mechanisms, structural weaknesses persist. Articles 279 and 280 of the constitution mandate audits by the Comptroller General's Office, but appointments often favor individuals linked to the president or ruling party, leading to leniency toward questionable expenditures. The National Authority for Transparency and Access to Information (ANTAI), created in 2013, has not closed key gaps such as the absence of specific conflict-of-interest legislation. The existing Code of Ethics broadly prohibits conflicts of interest but lacks clear definitions and sanctions. Upon taking office, President Mulino pledged to combat corruption and prosecute the misuse of public funds, and urged members of his administration to file corruption complaints with the relevant authorities.

Regarding the financing of electoral campaigns, spending and contribution limits were introduced in 2015, as contemplated in the Electoral Code. They include a \$10 million cap on presidential campaign expenditures and a \$300,000 limit on individual contributions to presidential campaigns. Law No. 23 of 2015, as amended in 2017, introduced measures to combat money-laundering, the financing of terrorist activities and the proliferation of weapons of mass destruction. However, this legislation and the measures taken to implement it have been deemed insufficient by the OECD Financial Action Task Force (FATF). Furthermore, a journalistic investigation published in 2023 showed that the winning campaign in the 2019 election exceeded the permitted spending threshold by a factor of two. No judicial investigation has been launched regarding this possible electoral transgression.

Panama was removed from the Financial Action Task Force's (FATF) gray list in October 2023. This decision followed significant progress in addressing strategic deficiencies in Panama's anti-money-laundering and counter-terrorist financing (AML/CFT) regime.

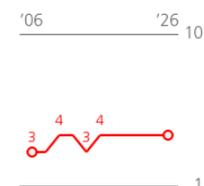
16 | Consensus-Building

There is a broad consensus among political actors on maintaining the 1972 constitution and Panama's democratic system. However, social unrest and the rise of new political parties reflect growing dissatisfaction with traditional politics, which has been marked by "particracy," clientelism and vote-buying since the 1990s. Efforts to reform the system face resistance due to the entrenched ties between political and economic elites, with informal agreements, bribes and regulatory favoritism serving to maintain the status quo. This crisis of representation has generated a push to break from past political practices. President Mulino has expressed intentions to pursue constitutional reforms during his administration.

On the other hand, all relevant actors agree that Panama's market economy model should be preserved. Within this framework, the management of the Panama Canal is a particular point of consensus. The various political forces are all in favor of a market economy, and there are no government parties pursuing nationalizing

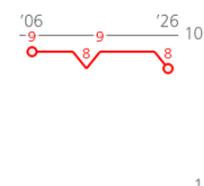
Anti-corruption policy

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Consensus on goals

8



strategies or which seek a greater state presence in the economy. However, this also implies maintaining the current cartel-based economic system in the face of proposals to make it more transparent and competitive.

From the standpoint of procedural democracy, there are no anti-democratic actors in Panama. However, given the elitist nature of Panamanian politics, there are strong indications that the elites have no interest in deepening democracy. Thus, the electoral system makes it easy to gain access to elected office only for those who have access to large sums of money or who are already closely affiliated with a party's leadership.

Since the administration of Martin Torrijos (PRD, 2004 – 2009), the security services have gained strength, thanks to the strong support of the Panamanian government and the United States. These services have become informal veto actors in matters relevant to them. Other veto players include the large business sectors and the Christian churches, again in matters relevant to them.

The socioeconomic divide remains the most important cleavage in Panama today, and partially overlaps with ethnic divisions. However, despite occasional outbursts of populist rhetoric, these fissures have not yet been activated politically or through elections. Nor have they turned violent. Political actors assume that they can continue to prevent the escalation of conflict through traditional clientelistic measures, including massive subsidies. Although divisions involving Indigenous communities persist, there are institutionalized mechanisms in place, such as the Indigenous comarcas that possess some degree of self-governance and specific equality rights, that prevent the potential escalation of conflict.

However, rising levels of frustration derived from the country's inequalities and structural problems have created fertile ground for mobilization, with episodes of violent protests. Thus, in 2022, protests were triggered both by circumstantial issues, such as the rising cost of fuel and of the basic food basket, and by structural problems including inequality and corruption. Subsequently, in 2023, widespread protests were triggered by the renewal of copper mining by Minera Panama (First Quantum Minerals) in biodiverse settlement areas.

The latest mobilizations highlight a fracture that has deepened in recent years, especially during the COVID-19 pandemic, and is related to socioeconomic cleavages. This fracture divides supporters and opponents of the current political system. Anti-system activists, predominantly among the youth, are increasingly vocal and insistent.

Anti-democratic actors



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Cleavage / conflict management



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Until recently, civil society's participation in the political process has been selective and inconsistent, especially given the limited role of most CSOs apart from well-organized business organizations. Occasionally, the government has invited favorable civil society organizations to national or sectoral consultations. However, independent or adversarial organizations were usually excluded from political processes.

Following the COVID-19 pandemic, various professionals complained that the government did not consult them in designing and implementing its response to the pandemic. However, the 2022 protests paved the way for social dialogue. The crisis presented an opportunity for dialogue, and subsequently, President Cortizo initiated negotiations with various civil society actors with the aim of achieving a coordinated solution to the issues raised.

Likewise, the need to adopt measures to guarantee the sustainability of the state-owned Social Security Fund (CSS) has also favored social dialogue. The various parties have agreed to avoid the mistakes of the past and to dedicate their efforts to creating the basis for a truly participatory and inclusive process of social dialogue aimed at generating consensus for the country's benefit. However, some unions withdrew from the negotiations as they considered that the government was excessively supporting the employers' proposals.

In recent years, some institutions have taken steps to enhance dialogue. One example has been the establishment of the Inter-American School of Social Dialogue, Tripartism and Conflict Resolution at the University of Panama. This initiative is part of a broader collaboration between the Ministry of Labor and Professional Development (Mitradel) and the University of Panama, supported by the International Labor Organization (ILO). According to Mitradel, progress has been made in training both national and international professionals in areas such as social dialogue, labor relations, tripartism and alternative dispute resolution.

Human rights violations during the military dictatorship (1968 – 1989) included arbitrary detentions, torture, exile, forced disappearances and political murders, some of which remain unsolved to this day. A truth commission was established in 2001, but it failed to reach any agreement with the victims. The commission investigated 110 cases and concluded that 70 people had been murdered, while 40 were still missing. Critics viewed this judicial body as incompetent.

In 2019, victims of the dictatorship and the government of Panama signed a reparations agreement in which the state acknowledged responsibility for criminal acts and agreed to provide financial compensation to victims. However, victims' associations say the government has still not honored the agreement. In 2024, the Public Prosecutor's Office reopened emblematic cases of forced disappearance.

Public consultation

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Reconciliation

n/a

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n/a

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In 2023, the National Assembly approved a commemorative holiday for the 1989 U.S. invasion of Panama, something victims' families had long demanded. However, in 2025 the mayor of the capital city downplayed the day's importance, sparking public debate. This episode shows that reconciliation remains incomplete. More recent cases, such as human rights violations committed during protests in 2012, have not been properly investigated.

17 | International Cooperation

Panama's international cooperation strategy is based on strengthening the country's role as a global logistics hub via the Panama Canal, diversifying trade relations with emerging markets, promoting sustainable development through green investments, actively participating in multilateral organizations and maintaining a regional security focus. This approach seeks not only to improve the country's economic position, but also to strengthen its image as a responsible actor and leader on key global issues such as climate change, health and security.

Although Panama was removed from the OECD Development Assistance Committee's (DAC) list of official development assistance (ODA) recipients as of January 1, 2022, the country continues to receive assistance because of regional issues such as inequality, migratory crises and natural disasters. Panama's unique geographic position as a transit country for migrants, as well as its vulnerability to climate change and environmental disasters, has led to ongoing humanitarian needs. Furthermore, Panama remains a key player in the region and continues to work with various international organizations, including the United Nations Development Programme (UNDP), UNICEF, and the Food and Agriculture Organization (FAO), which provide both technical and financial support in areas ranging from education to disaster risk management and social protection.

Panama effectively leverages international assistance, particularly from the European Union (EU), to address humanitarian and disaster response challenges. Since 1996, the European Union has provided €12.4 million in aid, focused on emergency response, disaster preparedness and migration crises. A significant portion – €7 million since 2021 – has supported migrants transiting through the Darién Gap, providing food, shelter and health care.

Panama also benefits from the EU-International Federation of Red Cross and Red Crescent Societies (IFRC) Programmatic Alliance, which enhances epidemic and pandemic preparedness. The country's role as a transit hub makes it particularly vulnerable to health crises, and EU funding supports disaster preparedness and Red Cross capacity-building.

Effective use of support

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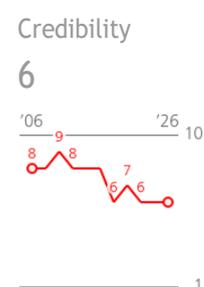
To further strengthen its presence, the European Union opened a Regional Support Office in Panama in 2022 with the goal of improving humanitarian response across Latin America and the Caribbean. The same year, it established a humanitarian aid inventory in Panama to ensure rapid deployment of emergency supplies across the region within 72 hours.

In summary, despite its high-income status, Panama continues to receive substantial international aid, particularly from the EU, because of ongoing regional challenges. Through partnerships with organizations such as the IFRC and the Red Cross, and through the establishment of specialized regional offices and aid inventories, the European Union has strengthened its role as a key partner in addressing Panama's challenges and enhancing the country's capacity to respond to emergencies.

Panama is a member of many international and regional organizations and has long expressed its commitment to international cooperation and hemispheric integration. For example, it has ratified all major human rights conventions, although delays in the state's publication of compliance reports are common. Panamanian citizens have been selected for leadership roles in the United Nations Population Fund (UNFPA), the Inter-American Commission on Human Rights and the Central American Integration System (SICA). In December 2024, Panama signed the Artemis Accords, joining 49 other nations in promoting peaceful and sustainable space exploration. In May 2024, Panama hosted the 25th Conference of the Meso American and Caribbean Sea Hydrographic Commission (MACHC25), underscoring the country's role in regional maritime cooperation.

However, as the Panama Papers affair demonstrates, the country's reputation has suffered greatly in the last decade because of its unwillingness or inability to combat money-laundering and tax evasion. Although Panama was removed from the European Commission's "high risk" list for money-laundering in 2024, the country remains on the list of countries that are not cooperating or fulfilling their commitments regarding tax evasion.

Of the 10 fundamental ILO conventions, Panama has not yet ratified two, on the issues of occupational safety and health. It is also one of the few countries in Latin America that has not ratified the ILO Convention 169 on the Rights of Indigenous Peoples. Regarding climate change, Panama updated its determined contributions as agreed in the Paris Agreement in 2024.



Panama actively participates in regional cooperation, but its interests are divided between subregional cooperation with its Central American neighbors and its special relationship with the United States – given the canal’s strategic importance and the country’s financial system, which has been a magnet for money-laundering, particularly from drug-trafficking.

In addition to belonging to most regional and subregional organizations, Panama has been somewhat more active in Central American cooperation, especially regarding the Central American Integration System (SICA) and the Economic Integration Subsystem (SIECA). Within the Lima Group framework, Panama was early to adopt specific measures against Venezuelan government officials.

The migration crisis in the Darién region has compelled Colombia, Costa Rica and Panama to work together. The governments of Panama and Colombia share a commitment to preserving the Darién National Park and coordinating efforts to facilitate safe, orderly and regulated migration. Meanwhile, bilateral cooperation with Costa Rica covers issues such as border demarcation, security, scientific and educational exchanges, labor migration and border development initiatives. The United States and Panama signed an agreement on July 1, 2024, to repatriate Colombian and Ecuadorian migrants with irregular status.

Another area of challenges facing the Mulino administration rests in ensuring China adheres to the Neutrality Treaty and developing a policy toward China. Since Panama normalized relations with China in 2017, the United States has increasingly insisted that Panama “cool” relations with Beijing. A red line in Panama’s foreign policy is the canal, as the government rules out the presence of any foreign force there.

Further challenges in the regional context include recalibrating Panama’s role in the face of the political crisis in Venezuela and the associated migration crisis; improving relations with Colombia, with which it has been engaged in a tariff dispute since 2012; joining economic blocs that may enhance Panama’s competitive characteristics; improving the country’s fiscal health; intensifying its fight against transnational organized crime and illicit economies; and cleaning up Panama’s image, its rule of law and its protection of foreign investments.

Regional cooperation

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Strategic Outlook

The large-scale social and political protests in 2022 – 2023 revealed a shift in Panama’s public sentiment, as citizens who had long tolerated various national grievances began to publicly express their growing dissatisfaction. As a result, campaigning by various candidates in the 2024 elections highlighted the need for substantive political and social change.

The 2023 protests were particularly effective in mobilizing the population, leading to massive demonstrations and road closures in opposition not only to a mining contract awarded to a Canadian company, but also to broader systemic issues, especially corruption. A recent survey conducted by the International Center for Political and Social Studies of Panama (CIEPS) underscored this concern, identifying corruption as the most pressing issue for 22.3% of respondents. Education and insecurity followed, cited by 16.3% and 15.7%, respectively.

In response, the incoming administration has prioritized addressing Panama’s structural challenges to restore strong economic growth, maintain fiscal stability and enhance resilience to climate-related shocks. Achieving these goals will require improved revenue collection through tax adjustments, greater efficiency in tax administration and better management of public expenditures, particularly in areas such as pensions and targeted subsidies. These measures are expected to boost investor confidence and restore public trust.

Institutional reforms are also crucial. First, Panama must establish more representative, transparent and democratic institutions in order to address political disengagement and widespread social frustration. Second, reinforcing the separation of powers – especially by enhancing judicial independence – will be vital. This should include revising the appointment process for Supreme Court justices and strengthening judicial autonomy in order to combat corruption. Ultimately, modernizing the public administration system will be essential in order to enhance governance and eliminate inefficiencies that impede economic development.

Panama’s external challenges are multifaceted, encompassing geopolitical tensions over control of strategic assets, particularly the Panama Canal, as well as significant foreign investments in its infrastructure and complex negotiations with international corporations. Navigating these issues will require careful diplomacy and strategic planning in order to safeguard Panama’s sovereignty and economic interests.