Executive Summary

Preliminary data up to the third quarter of the current year show that fiscal management, aligned with the State's Fiscal Social Responsibility Law, has resulted in notable fiscal consolidation. This policy is reflected in a significant improvement in the Total and Primary Balance of the Non-Financial Public Sector (NFPS), which has reduced its deficit by 1.7 percentage points of the Gross Domestic Product (GDP). This outcome is complemented by robust growth during the same period.

Nevertheless, despite the increase in debt service, the figure remains in line with the estimates for the fiscal period, with ongoing monitoring and control of this expenditure.

General Economic Context

- **Robust economic growth:** Panama's economic growth is projected between 3.9% and 4.2% for 2025, according to multilateral organizations, above the Latin American average (2.2% - 2.4%). The Monthly Economic Activity Index (IMAE) grew by 4.2% year-on-year as of August, indicating sustained economy recovery.
- **Underlying risks** Factor such as geopolitical tensions, trade barriers and policy uncertainty could affect the external environment. Even so, momentum is expected from the growth of the service sector and investment in infrastructure.

Progress in Fiscal Consolidation

- **NFPS Deficit:** The deficit was B/.4,131.8 million as of the third quarter of 2025, or 4.56% of GDP. This reflects a reduction of B/.1,278.2 million compared to the same period in 2024, a variation of 1.7 percentage points from the GDP.
- **NFPS primary balance:** Shows significant operational improvement and reduction in financing pressures, as the primary deficit fell by 45.2%, a decrease of B/.1,487.0 million compared to 2024.
- **Central Government (CG) deficit:** Amounted to B/.5,275.4 million, representing 5.82% of GDP and reflecting an improvement of 23.2% compared to the previous year.
- **Adjustment Plan:** An expenditure containment plan of B/.1,900 million (2.1% of GDP) is being implemented, approved through Cabinet Resolution No. 57 of June 10, 2025.
- **Expenditure Control Unit under the Fiscal Responsibility Law:** To ensure efficient execution of the 2025 budget and achieve better expenditure execution, a mechanism was established requiring all public entities to register new project documentation, minutes and invoices by September 30. The measure aims to ensure that essential commitments reach the accrual stage in a timely manner. All other existing contracts and their corresponding invoices continue their normal course within the 2025 budget execution process.

Revenues

- **NFPS: Total revenues** amounted to B/.9,833.2 million, representing a 5.5% increase. This growth was mainly driven by Central Government current revenues which rose by 9.5%.
- **CG: Tax revenues** increased by 8.3%, totaling B/.4,738.5 million. Direct taxes stand out with a 14.2% increase, particularly: Payroll Income Tax (B/.156.97 million), Property Tax (B/.62.5 million), Corporate Income Tax (B/.57.6 million), and Capital Gains Tax (B/.45.2 million). However, the VAT (ITBMS) decreased by 3.8% or B/.42.1 million.
- **Non-tax revenues:** up 13.5%, due to strong performance from Canal tolls (up 16.6%) and state-owned enterprises.
- **Fiscal modernization:** To sustain the positive revenue trend, tax collection has been strengthened through modernization measures, notably the expansion of electronic invoicing, mandatory RUC updates and the implementation of the Fiscal Lottery to promote tax culture and formality in transactions.

Expenditures

- **NFPS expenditure decreased by 5.2%**, marking a significant shift from previous increases.

- **CG expenditure fell by 8.9%,** due to reductions in capital expenditures, current transfers and personal services.
- **Interest payments:** Totaled B/.2,328.4 million. Although there was a heavier financial burden because of higher contracting rates from the previous administration, there has been an improvement in financing costs thanks to debt management efforts aimed at fiscal consolidation, diversification of financing sources and the support of economic growth.
- **NFPS current savings improved:** The current savings deficit narrowed by 15.7%.

Financing: Improvement in Weighted Average Cost (WAC) and Reduction of Net Debt

- Robust fiscal management has achieved significant consolidation, leading to a decrease in financing costs in international markets and, consequently, substantial savings in debt service. Debt metrics have improved substantially, with the Weighted Average Cost falling below 5% for the first time in two years, representing a cumulative reduction of 28 basis points between January and September. This improvement results from diversified financing sources, including commercial banks loans in other currencies with lower rates. As a result of this strategy, a reduction in interest and commission payments of approximately USD393 million is estimated for the 2025 fiscal year, decreasing from the initially programmed USD3,192 million to USD2,798 million.
- Additionally, the Ministry of Economy and Finance (MEF) sought to monetize the promissory notes from the Panama Savings Fund (FAP) issued in June 2024. This exchange yielded multiple benefits for the country: (1) It improves cash flow and interest payment by 2.19%, from 7.45% to 5.26%; (2) as liquid, tradable instruments, it allows for the capitalization of the FAP, which had previously registered them as equity since they were non-negotiable. This also marks a reduction in net debt of approximately USD1,153.9 million-contributing to the sustainability of this key national savings mechanism.
- Continuing the development of the domestic market, in September, the MEF completed the issuance of a Treasury Note with a 6.625% coupon and a maturity in August 2029, reaching an outstanding amount of B/.999 million, establishing a liquid benchmark in the local market. It is important to highlight that in this eighth tranche, the Treasury Notes were placed at a premium, with a Weighted Average Price of 103.77%, indicating that investors paid above their face value (100%). As for the yield, the Weighted Average was 5.54%, which is 1.18% lower than the yield (cost) compared to August 2024, when the first tranche of this Treasury Note was placed.