# PANAMA: UNREST LINGERS ON DESPITE PRICE AND PROFIT CAPS FROM THE GOVERNMENT TO ALLEVIATE PRICE PRESSURES

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### Event

Rising fuel and food prices have triggered protests since June. In July, these protests intensified nationwide, resulting in road blockades and strikes organised by several labour unions. President Cortizo reacted with negotiations between the government, labour unions and social organisations to mitigate the nationwide social unrest. The government made several concessions in the past month, such as a decrease in petrol prices and in the prices of 72 staple products and 170 medicines. To achieve the agreed price reductions, the government plans to use subsidies, price limits, profit margin caps and reduced import tariffs.

### Impact

The national dialogue sessions are expected to continue for several weeks, given there are still several items on the agenda. Though unrest has diminished substantially compared to July, protest groups are keeping pressure on the government, meaning blockades and protests still occasionally arise. As a result, further pricing regulations are likely to be announced in the coming weeks. An unintended consequence of these policies, however, could be product shortages if producers and retailers face losses or negligible profit margins. Moreover, the government's willingness to yield to protests and the risk of shortages will likely lead to new unrest in the coming months.

Despite the difficult political context, the ST political risk rating (in category 2/7) shows robustness thanks to the adequate level of foreign exchange reserves and relatively low short-term external debt. The business environment risk could be downgraded in the coming months if the unrest significantly hurts the currently projected strong economic growth of 6.3% in 2022 or if inflation increases considerably (inflation was at 3.5% in July, which is rather low compared to Panama's Central American neighbours). As for the MLT political risk rating, it is expected to stay in a stable 3/7 category at this stage. Moreover, public finances are relatively moderate (public debt is forecast at around 59% of GDP by the end of 2022), leaving room for some concessions.

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