

Panama

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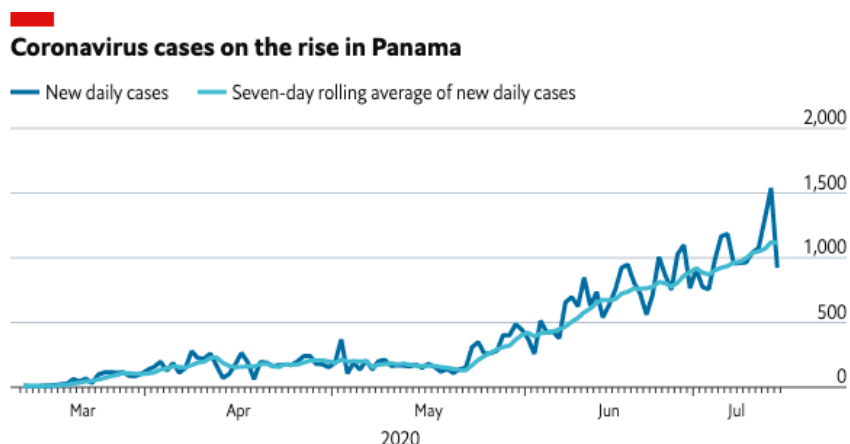
Risk of social unrest mounting as pandemic persists

Spiralling infections rates, an uninspiring economic response to the pandemic, allegations of opportunistic corruption and serious splits in the ruling party continue to plague Panama. After a strong start to the handling of the pandemic, the president, Laurentino Cortizo, is at risk of becoming a spent political force. With the economy set for its worst contraction in three decades, he needs to rapidly restore public confidence in his administration or risks social unrest.

In mid-March Panama was one of the first Latin American countries to close schools and introduce stay-at-home guidelines, and its lockdown rules were among the strictest in the region. Although some presidents in the region (including the powerhouses of Brazil and Mexico) dithered or downplayed the seriousness of the virus, Mr Cortizo's early televised appearances embodied seriousness and confidence, as he insisted that his scientific advisers were guiding government decisions. Four months on, public trust in his administration has crumbled.

Hope over expectation

By failing to accompany the stern measures recommended by his health advisers with immediate and effective economic relief for poor households, the strict lockdown was not practical and has ultimately led to the spread of infection. Many Panamanians without the financial means to stay at home either ignored the stay-at-home rules or secured a *salvoconducto* (a government pass for essential labour), which is now held by one in eight citizens. Public transport and markets remained centres of infection and, when the government tried to ease the lockdown later in May, cases quickly spiked. The rolling seven-day average of new daily cases rose from less than 200 per day in late May, to more than 1,000 cases per day in July.



Sources: Ministerio de Salud; The Economist Intelligence Unit.

The heightened rate of infection has continued despite the reintroduction of conditions in June, suggesting that public patience with the quarantine policy has worn thin. The economy has been severely dented. According to the monthly economic activity index from INEC (the national statistics institute), activity nosedived by 35% year on year in April. Two months after the first reopening of the economy, the vast majority of suspended labour contracts have yet to be reactivated. The Economist Intelligence Unit forecasts that, even as activity picks up in the second half of this year, real GDP will contract by 6%, with risks tilted to the downside if setbacks persist in the government's reopening plan.

Under pressure

Most other Latin American countries have failed to prevent the spread of the virus (Uruguay being a notable exception), but in Panama disappointment with the government's handling of the crisis is compounded by accusations that its members have exploited the pandemic for financial or political gain. Opposition parties claim that the distribution of cash and food aid was done to favour supporters of Mr Cortizo's ruling Partido Revolucionario Democrático (PRD). The vice-president, José Gabriel Carrizo, and the minister of public works, Rafael Sabonge, have been the targets of social media campaigns demanding their resignations, after hospitals and health equipment were purchased at inflated prices.

However, in a mid-June reshuffle, both men kept their jobs. Rosario Turner, the minister of health, did not. Ms Turner has maintained her popularity despite the worsening health situation, and the perception is that she was unfairly dismissed owing to internal PRD politics, or possibly as a result of her recent refusal to sign a letter permitting the return of previous president Ricardo Martinelli's (2009-14) sons on a "humanitarian flight" from Guatemala to Panama City (the capital), after being arrested in Guatemala. The depths of split between two factions of the PRD has become clear and appears to affect appointments and decision-making in the Cortizo cabinet. This has led to speculation that a former president, Ernesto Pérez Balladares (1994-99), could bid to become the president of the PRD in next year's internal elections. He would be a unifying figure and has a reputation for competence, albeit not for respecting democratic institutions. He is currently fighting a legal battle against a local independent newspaper, La Prensa, that has effectively cut off the paper's funding, as its accounts have been frozen while the lawsuit is ongoing.

Crisis mode

Having started his mandate brightly, Mr Cortizo is now in full crisis-management mode. Displaying less assuredness than in his addresses to the public in the first weeks of the pandemic, he used the first ten minutes of his July 1st speech (which marked his first year in power) to bemoan the US\$5.3bn of debts and payments that his administration inherited from its predecessor.

He also used the speech to restate a number of measures to reactivate the economy. These include funnelling US\$150m in international development aid to small businesses and the agricultural sector, a debt moratorium to the end of the year and support for first-time house buyers. Albeit a step in the right direction, without clear targets and processes to bypass the bureaucracy and corruption that have hampered efforts to date, the measures fall short of a strategic plan and will probably need to be reinforced with a bigger stimulus at a later date.

Mr Cortizo is likely to abandon his pre-election manifesto to undertake constitutional reforms demanded by the public. His promise to run an efficient austerity programme, with a zero-tolerance policy towards corruption, has been starkly undermined by the actions of his team during the pandemic. The proposed overhaul of the social security system—underfunded owing to the rapid growth of informal employment—will now be kicked down the road, but new sources of funding will have to be found in the next 18 months in order to pay pensions.

Mr Cortizo's options are limited. We expect him to push ahead with infrastructure projects—such as the new Metro line or improvements to the Panama Canal's water supply—in order to boost the dormant construction industry. The government has eschewed the Inter-American Development Bank's call for tax increases, given the collapse in private-sector activity, but increasing taxes on wealthy individuals and corporations may well be an option in a year or two.

Restoring trust in the government would help to boost the ailing economy, but it could also be exceedingly difficult to achieve. With a political spectrum less polarised than elsewhere in the region, Panama has not seen major public protests over inequality that rocked many Latin American countries in 2019. Street protests that occurred in Panama City in November, over the National Assembly's attempts to gut proposed constitutional reforms, suggest that the political temperature could be rising. Having succumbed to corruption and infighting so far, Mr Cortizo will need to drastically improve the image of his government, revitalise the economy and show real results in the fight against Covid-19, in order to avoid major social unrest that would weaken his government further.