Ministry of Economy and Finance

Executive Decree No. 50

(of June 26, 2009)

"Which regulates Law 34 of 2008 on Social Fiscal Responsibility, amended by Law 32 of June 26, 2009"

THE PRESIDENT OF THE REPUBLIC

In exercise of his constitutional and legal powers:

CONSIDERING:

That through Law 34 of June 5, 2008, published in the Official Gazette No. 26056 of June 6, 2008, duly amended by Law No. 32 of June 26, 2009, the Social Fiscal Responsibility Law was issued, requiring public servants with decision making, authorization or execution responsibilities, on any matter regulated under said Law or complementary laws, to be accountable for the decisions and actions taken and the results obtained, according to the competences attributed to them by these laws.

That as a consequence the state is obliged to a correct and proper performance of public functions, for which it is the duty of the Public Administration to act with transparency, responsibility, accountability and to provide information authorized and permitted by this Law, on the activities and actions of its officials, allowing citizens to have a comprehensive knowledge of the result of their administration and the impact of their decisions.

That it is necessary to regulate matters pertaining to clear and timely information on the activities of public revenues and expenditures, to facilitate the evaluation of the objectives and results of the government's fiscal policy, thus promoting transparency in public finances.

That Article 30 of Law 34 of June 5, 2008, as amended by Law No. 32 of June 26, 2009 empowers the Executive Branch to regulate all matters related to the Social Fiscal Responsibility Law.

DECREES:

Chapter I. General Provisions and Principles

Article 1. Purpose and Scope of Application of this Regulation.

The provisions of this Regulation shall apply to public sector entities throughout the territory of the Republic and they shall regulate the principles and methodology required for strengthening fiscal discipline, through Social Fiscal Responsibility compliance and implementation standards established under Law 34 of June 5, 2008.

For information and accountability purposes, Law 34 of June 5, 2008 and its reform, as well as this Regulation shall apply to all public sector entities, including the Non-financial Public Sector, the Financial Public Enterprises and the Panama Canal Authority.

For the purposes of measuring Fiscal Balance, the scope of Law 34 of June 5, 2008 and its reform, as well as this Regulation covers the Non-Financial Public Sector, comprised by the General Government (Central Government , Social Security Fund and Consolidated Agencies) Non-financial Public

Enterprises, Decentralized Institutions or Entities, among which are included Local Governments or Municipalities.

The Law on Social Fiscal Responsibility and this Regulation shall also apply to the Special Funds of the Non-financial Public Sector (trusts and others) created for specific purposes and whose resources are consolidated in fiscal accounts. Within the report of the Non-Financial Public Sector's Fiscal Balance, detailed information on the financial information of these funds will be provided.

Article 2. Acronyms for reference.

The use of the following acronyms is recognized for the purposes of this Regulation's contents:

Law: Law 34 of 2008 on Social Fiscal Responsibility and its reform.

Regulation: Regulation of Law 34 of 2008 on Social Fiscal Responsibility.

PS: Public Sector

NFPS: Non-financial Public Sector

CSS: Social Security Fund

CGR: Office of the Comptroller General of the Republic

MEF: Ministry of Economy and Finance

NPIS: National Public Investment System.

ACP: Panama Canal Authority

GDP: Gross Domestic Product

PEG: Strategic Government Plan

PGE: State's General Budget

ACND: Agreements of the National Coalition for Development

MFMP Framework: Medium Term Fiscal Framework

Article 3. Guiding Principles for Managing Public Finances

For the purposes of this Regulation's application, the fundamental principles for managing public finances referred to in the Law must be respected. The management of public finances will be governed by the principles of transparency, responsibility and accountability.

Article 4. Principle of Transparency:

This principle states that the procedures stipulated by law to disclose and publicly disclose information related to public actions must be followed so that citizens have access to reliable, comprehensive, understandable and comparable information, and that the performance of public finances, in regard to freedom and access to information, be public, timely and easily accessible, as established by Law 6 of January 22, 2002 which dictates standards for Transparency in Public Management.

Article 5. Principle of Responsibility.

Public officials must observe, comply with and enforce the provisions established in the Law and its regulations.

The principle of responsibility is based on increasing the current savings of the Non-financial public sector to finance investments and that, inasmuch as possible, dependence on the use of debt instruments decreases, establishing limits to growth of the same.

The principle of responsibility of the civil service implies that public servants must act in accordance with legal procedures established by the Law for public functions and those listed in its Regulations.

Article 6. Principle of Accountability.

The principle of accountability is one that allows public scrutiny in a systematic and comprehensive manner, as well as the examination and verification of the results achieved in managing public finances with respect to commitments made in fiscal policy and by using financial, economic and social indicators to measure performance and achievement of goals.

Article 7. General Principle of Fiscal Discipline in the Public Sector's Financial Management

The general principle of fiscal discipline in the public sector's financial management is based on the principle of Fiscal responsibility, and presupposes a process of prior calculation of expenses and their respective evaluation. It points at the fact that the Budget should be consistent with the goals established in the Strategic Government Plan referred to in Article 18 of the Law, considering restrictions, limits and goals in fiscal resources established in Articles 10 to 12 of the Law.

Chapter II. Concepts, Definitions and Methodology

Article 8. Tax Expenditure, other deductions and adjustments.

The reduction in tax revenues that the State ceases to receive by granting a natural or legal entity a reduction or elimination of a tax base or tax rate within an economic sector or region, will be considered a tax expenditure, compared to a taxpayer with similar characteristics that does not receive these benefits.

For purposes of compliance with the provisions of Article 5 of the Law, tax documents or credits recognized by the MEF will be considered tax expenditures, which can be used to cover tax obligations. The MEF will prepare an annex to the PGE draft bill of tax expenditures as defined by the Law.

Starting on fiscal year 2010, any draft bill granting fiscal benefits must include an estimate of the impact on earnings of the PS, the alternative income and objectives to be met, in order to facilitate its evaluation.

Article 9. Contingent Liabilities, Guarantees and Judicial Remedies

All public entities that are subject to contingent liabilities, court rulings or awards are obliged to communicate promptly with the MEF, to be duly registered in the PGE.

The MEF will be responsible for making estimates of contingent liabilities, guarantees and awarded judicial compensation, as well as keeping a record of those that are in process. This information will be included in an annex on Fiscal Risk in the PGE draft bill. Said information shall include the calculation methodologies used and an analysis of the potential impact on the sustainability of public finances in the event that contingent liabilities, guarantees and pending claims materialize. Based on this information, the PGE's draft bill will incorporate a budget line starting on fiscal year 2011 for general contingencies to be used to meet the payment of legal compensation, as well as contingent liabilities and guarantees that materialize in the fiscal year. If on December 31st of the corresponding fiscal year, the total amount of the contingency reserve has not been pledged, the surplus funds shall revert to the National Treasury.

In the case of Public-Private Partnerships projects, this obligation shall be regulated.

The Social Security Fund (*CSS*) will provide the MEF information pertaining to actuarial liabilities of the pension scheme and the calculation methodology used.

Article 10. Cash Unit

To keep updated information with respect to the Cash Unit, organizations that are beneficiaries of incomes with specific ends created by special laws must submit monthly reports to the MEF and CGR, within the first ten (10) business days of the following month. This report must contain information on the amounts and sources of funds received and the uses of said funds. In the case of funds from specific accounts, this report shall contain the balance of liquid assets available, and in the case of trusts, their equity.

The PGE draft bill shall include information on the amount of revenues for specific purposes and expenditure requirements established in special laws, and/or the Budget Bill, broken down by type of expenditure, origin of the relationship or spending requirement, total absolute amounts as well as the relation with tax revenues and the nominal GDP, giving details with respect to the creation of new trusts and funds.

Article 11. Methodology for Determining and Accounting Rule for the Consolidated Fiscal Balance of the NFPS

Calculating the Consolidated Fiscal Balance of NFPSs requires eliminating transactions between the Central Government and other consolidated entities of the NFPS. On the financing side, debt operations between the Central Government and the rest of the nonfinancial public sector will be offset.

The presentation of the NFPS Consolidated Fiscal Balance must include a statement of accounts payable by the Central Government, which is obtained from the MEF. This report will provide details by institution, seniority and amount.

The quarterly assessment report referred to in Article 26 of the Law, as well as the Compliance Report covered under Article 20 of the Law must contain the information on accounts payable.

Public institutions should ask the MEF for cash reserves accrued or existing up to December 31st, and these must be paid no later than April 30th of the following year.

Cash surpluses resulting from uncommitted budget appropriations by December 31st revert to the Treasury in the first 15 days of the next fiscal year and may not be used to finance additional expenditures not included in the next fiscal year's budget.

The Fiscal Balance shall be adjusted by differences resulting from trusts' operations, in the event that the transfers made by the Central Government exceed or are less than the costs incurred upon directly by the trusts, in the corresponding fiscal year.

Individual accounts from contributors to the Social Security Fund's voluntary scheme will not be considered for calculating NFPS fiscal accounts.

For purposes of measuring compliance with the financial limits set out in Articles 10, 11 and 12 of the Law for the 2009 fiscal year, an adjustment will be made for determining how the Consolidated Fiscal Balance of the NFPS will be financed to compensate a decrease in liquid assets of the Social Security Fund that will occur upon removing deposits in the individual accounts of the voluntary scheme accrued as of December 31st, 2008.

The MEF will have the responsibility of measuring compliance with the NFPS Consolidated Fiscal Balance.

In the event of a statistical discrepancy between the Consolidated Tax Balance of the NFPS and the financing of the Consolidated Fiscal Balance of the NFPS, funding will be used in order to determine compliance with the financial limits established in Article 10 of the Law.

Chapter III. Financial Limits

Article 12. Fiscal Balance of the Non-Financial Public Sector

Pursuant to Article 10 of the Law, the PGE draft bills will also have revenue forecasts and a maximum authorization for a cap in total expenditures, (accrued budget) that Entities of the NFPS can commit to, a forecast of expected payments for the corresponding fiscal year (cash budget). They will also report on the indicative budgetary caps for each of the NFPS entities consistent with the target of an absolute amount of the deficit of 1% of GDP, positive current savings as required by Article 14 of the Law and a primary surplus in line with the level of debt / GDP and interest / current revenues of the NFPS and consistent with the public debt limit as required by Article 13 of the Law.

The MEF will monitor the fulfillment of the indicative limits of NFPS institutions and will take them into account to authorize additional credits to the budget, changes in monthly allocations and budget modifications between institutions, including local or municipal governments, and will draft containment and/or expenditure reduction plans if disposable revenues are lower to those projected in the PGE.

The MEF should take into account compliance with the limits of Entities of the NFPS when authorizing and managing credit operations, including local or municipal governments.

Public institutions shall send a report to the MEF, CGR and the National Assembly's Budget Committee, within the first twenty (21) days of each previous month and in a cumulative manner, showing the budgetary implementation with information concerning revenues, expenses, investments, public debt, cash flow and other details requested. In addition and within the first twenty (21) days after the end of each quarter, a copy of their financial statements will be presented to these institutions.

Based on the above, the MEF shall prepare a quarterly Evaluation Report referred to in Article 26 of the Law, in collaboration with the CGR, within thirty (30) days of concluding the corresponding quarter.

Article 13. Corrective and Preventive Measures

If at any time of the year the MEF reasonably believes that the total disposable income may be less than the total expenditure covered by the PGE, or actual payments exceed payments under the cash budget, it will prepare a plan to contain public spending by an amount equal to the deviations, which will be submitted to the Cabinet Council for approval and subsequent dissemination to public institutions.

The MEF will present the Executive Branch with a plan to reduce public spending when it considers that the revenues collected are less than those established in the PGE and there is no allowance to address this condition, taking into consideration the provisions in Article 275 of the Constitution and in the corresponding budgetary rules. This plan will be submitted for approval by the Cabinet Council and the Budget Committee of the National Assembly, for the corresponding modification to the PGE.

Article 14. Temporary Suspension of Financial Limits and Return to said Limits.

For the purposes of establishing the indicators and parameters referred to in Article 11, Paragraph 3 of Law 32 of June 26th, 2009 amending Articles 11 and 30 of Law 34 of 2008 on Social Fiscal Responsibility, the percentage change in two consecutive quarters of the Gross Domestic Product (GDP) in real terms of the United States of America's economy will be used as the indicator for tracking the world's economy and its growth, according to information published by the U.S. Department of Commerce.

Article 15 Net Debt Reduction Target of the NFPS

The Strategic Government Plan will include annual indicative targets for reducing debt relative to the GDP that will be incorporated in the five-year financial programming, as well as in the PGE laws that are consistent with the limits provided in Section 12 of the Law. In addition, the five-year financial programming will include indicative targets for the interest / current revenues ratio of the NFPS to be incorporated in the respective annual budgets.

The indicative targets will result in indicative limits on the amount of debt that entities of the non-financial public sector can issue and will be specified in the estimated monthly income allocations, cash base and cash flows approved by the MEF.

The total consolidated NFPS debt may not be increased beyond the deficit limit set by Law, corrected by the difference attributable to variations in rates between the dollar and other currencies.

For purposes of compliance with the limits established by Law, pre-funding operations will not be considered in the year they are executed, but rather in the fiscal year said funding is used, deducting it from the increase in debt, the pre-funding amount, with the resources obtained through these operations as recorded in bank deposits of Entities of the NFPS until December 31st of the fiscal year they are carried out.

Resources obtained from external and internal credit issued by public sector institutions, with or without Central Government guarantee, or issuance of securities of these institutions for placement on the international and national market, with or without Central Government guarantee, cannot be used to finance current expenditure. The issuance of Treasury Bills with less than 360 days and the use of credit lines are exempted. Credit lines must be cancelled within the corresponding fiscal year. Securitization of income by NFPS, including municipal governments is prohibited.

If at the end of a fiscal year the Central Government entities and the subsidized Decentralized Sector maintain non-accrued available bank balances, they must be reimbursed to the General Treasury account no later than the last business day in February of the following year.

Once public debt contracts are countersigned, they should be recorded in the MEF. Also public entities must notify the MEF their debt service operations for tracking purposes and for preparing the Status of the Consolidated Public Debt, thirty (30) days after the end of the month.

Within sixty (60) calendar days after the date of publication of this Regulation in the Official Gazette, municipal governments must record and send to the MEF any credit agreements that are in force.

Public funding agencies that provide credit facilities to public institutions from the NFPS will provide a report to the MEF, the Office of the Comptroller and Budget Committee of the National Assembly within the first ten (10) days of each month, reflecting the credit status granted to these entities.

The MEF will prepare and publish up to thirty (30) calendar days after the end of each quarter, a consolidated statement of NFPS debt broken down by creditor, debtor and executing institution, including municipal governments; timelines for interest payments and other financial costs and quarterly amortizations with the same breakdown of the balance of the corresponding debt. This report will serve as a basis for calculating the debt-to-GDP ratio in accordance with Article 12 of the Law, as well as the ratio of interest paid with respect to current income.

As of March 31st of each fiscal year the MEF must submit to the National Assembly a Public Debt Annual Report which is part of the Report of the Treasury Account.

Article 16. Granting Credit and Guarantees

The Central Government will not grant guarantees to any NFPS entity without prior analysis of the economic and financial capacity of the applicant entity nor without the socio-economic rationale for the investment.

The MEF will assess the impact on debt levels that each bond or guarantee granted would have in relation to the total debt. The MEF reserves the right to approve or refuse the warranty.

When the Central Government honors a debt from another entity of the NFPS on the basis of a security, transfers may be conditioned to the payment of said debt. In addition, the entity will not have access to new credit or financing until the debt is fully settled.

For Decentralized Institutions and Non-financial Public Enterprises, credit operations based on revenue anticipation must meet the following conditions:

a)

They can be made only after the second month of the beginning of the fiscal year;

b)

They must be settled including interest payments and other financial charges by December 15th of each year;

c)

More than one pending debt operation of the same kind is prohibited;

d)

During a general elections year these credit transactions must be settled before June 30th.

Article 17. Financial Programming and Budget during General Elections Year

For financial and budget programming during a general elections year, the government should consider the following:

- During the two semesters of the fiscal year in which the elections take place and the incoming President is sworn into office, no redistributions of budget items in the cash operating annual budget that can affect the equitable composition of the resources allocated shall be authorized to maintain the proportionality of no more than 50% of the first semester.

- Programs and investment projects with funds allocated in the cash budget will be developed according to the anticipated implementation schedule and will not be affected by the proportionality of the operational expense; that is, the investment expenditures will not have to maintain the proportionality of not more than 50% of the first semester.

- Proportionality restrictions shall not apply to debt negotiations and debt service.

- Credit operations in anticipation of revenues are permitted during election years provided they are compatible with maintaining the proportionality of the commitments in the annual budget for operating expenses of no more than 50% of the first semester, respectively, and are canceled before June 30th. The MEF shall maintain a monitoring and control system of such credits balances.

Chapter IV. Multiannual Financial Programming

Article 18. Strategic Government Plan.

The Strategic Government Plan, prepared by the MEF, shall consist of the following documents: an Economic and Social Strategy a 5-year Financial Programming and an Indicative Investment 5 Year Plan. The economic and social strategy must start with an updated diagnosis of the main social and economic gaps identified in the National Coalition for Development agreements, in order to operationalize the set of measures the Central Government will take, without limitation. The Plan will include the projects, programs, policies, regulations and organizational changes, as well as other income-generating initiatives, expenditure and public funding, needed to effectively achieve the goals and objectives identified in the National Coalition and the electoral commitments of the incoming administration in its functions aimed at stabilizing, providing goods and services and reducing poverty.

This set of measures must have their respective indicators that can be objectively verified for monitoring, evaluation and accountability purposes. These measures will be structured through financial planning and a five year investment plan, considering in the first place projects requiring continuity.

The requirements of total revenues and expenses of this set of strategies, forecasts and measures shall be consistent and compliant with the financial limits established in the Law. Every year, before sending the PGE draft bill to the National Assembly, an additional one (1) year projection should be reviewed and updated on a five (5) year horizon.

The PEG and Macro-fiscal Medium Term Framework parameters for all years will in turn be consistent with resource allocations contained in the draft bill cash base for the fiscal year in which the PGE is formulated.

Article 19. Amendments to the Strategic Government Plan

Periodic reviews of financial programming and Investments budget referred to in the Law in Article 17 must be performed annually with a temporary time horizon of 5 years; i.e., each year the PEG should be updated for 5 years. If necessary, either through deviations or by suspending the implementation of financial limits, the financial programming and the indicative investment plan should be reviewed to incorporate changes, always within the five-year horizon.

Article 20. Medium Term Fiscal Framework

The Medium Term Fiscal Framework should cover five years; the year for which the PGE is being drafted and the next four years and will include the set of medium term macroeconomic and macro-fiscal assumptions. In addition, it must explain the assumptions, procedures and methodologies used for preparing the projections.

The framework will be prepared by the MEF before April 15th of each year and submitted to the Cabinet Council for approval by Cabinet Decree and published in the Official Gazette and on the MEF's website before April 30th of each year.

Estimates of the main macroeconomic variables referred to in paragraph 1 (a) of Article 18 of the Law, and the analysis of public debt sustainability paragraph 2 (e) of the same Article refers to, will include a sensitivity analysis in the event of a change in the main variables that affect the total debt such as the interest rate, consumer price index, principal payment period, among other relevant variables. Likewise current expenditures derived from new investments will also be considered, including Public - Private Partnerships.

The Framework will explain the differences between the main budget aggregates the corresponding period and those previously referred to in the Framework for the year. This explanation will be part of the preamble to the bill of PGE.

Regarding annual targets for public spending and current savings referred to in paragraph 2 (c) of Article 18 of the Law, the budgetary impact of major policy changes in revenues and significant changes to public expenditure will be explained.

The Framework as well as the PGE draft bill should include sections on debt sustainability, tax expenditures, fiscal risks, including contingent liabilities, guarantees and legal compensation, floating debt, quasi fiscal activities of public non-financial and financial enterprises and the private banking sector, actuarial liabilities, as well as the methodology used to estimate and project them. It should also include information on payment flows committed in Public-Private Partnership projects, including municipal governments, broken down by project and type of payment, including an estimate of the present value in absolute amounts and in relation to the income of the public entity in charge of the project.

Article 21. Budget of the Social Security Fund

In view of the content of Article 19 of the Law, the CSS will prepare and submit to the MEF a monthly report on the status of its reserves and separately, a cash flow of the mixed subsystem. Likewise, the budget forwarded by the CSS to be incorporated into the PGE should have revenues and expenditure items of individual accounts identified.

In order to comply with the requirement in Article 19, paragraph 2 of the Law, a report that estimates the reserves needed for paying pensions and retirements of the entire insured population will be prepared. This information is to be included in the PGE draft bill for fiscal year 2012.

Article 22. Monitoring and Evaluation

The MEF will be tasked with the monitoring and evaluation process of compliance with the fiscal limits and targets as set forth in the Law and the CGR will carry out the oversight functions. The BNP in compliance with its Organic Law will report the status of public entities' accounts to the CGR and MEF on a daily basis.

The MEF will develop a monitoring and evaluation system that will allow compliance with Article 21 of the Law. The monitoring system should provide information on the effect of the budget has in complying with the financial limits provided by the Law. For purposes of monitoring compliance with the law, the system will be operational by the second half of 2009.

Article 23. Public Debt

NFPS public institutions will request under their responsibility the authorization from the MEF before any public investment program or project is financed with public credit.

The MEF will verify that the project has been registered at the Projects Bank, and if not, will request that the project be registered to comply with said requirement.

No NFPS institution may start any procedure to incur on debt if it is not within the debt limit set out in the PGE for the fiscal year in course or the debt reduction plan.

Chapter V. Public Investments

Article 24. Public Investment

Public Investment will be considered as any allocation of resources from public sources administered under the responsibility of any public entity whose purpose is to maintain, improve or increase physical and human capital in order to expand the possibilities of providing services and production of goods in the country. Public investments will be governed under the principles of socio-economic efficiency and transparency during all phases in the life cycle of projects, in order to achieve a proper allocation and efficient execution thereof, thus maximizing the socio-economic profitability of the resources allocated.

Article 25 Feasibility Studies

Transiently, while public institutions are strengthened with trained personnel and technological resources to comply with the provisions of Article 23 of the Law, for the fiscal years 2009 to 2012, resources can be allocated in the PGE for projects that comply with the registration in the Projects Bank and favorable Eligibility and Technical Opinion on behalf of the Investment Programming Directorate SINIP-MEF.

Chapter VI. Transparency of Information

Article 26. Mechanisms for Transparency and Access to Information by Citizens

All information resulting from the topics covered in this Law shall be published in a regular and timely manner on the MEF's website.

TO BE PUBLISHED AND ENFORCED

Given in Panama City on the 26th of June of the year two thousand and nine (2009).

Martin Torrijos Espino

President of the Republic

HECTOR ALEXANDER H.

Minister of Economy and Finance