

## Strong growth prospects overshadow concerns over tax transparency

### General Information



<b>GDP</b>	USD55.188bn (World ranking 75, World Bank 2016)
<b>Population</b>	4.03mn (World ranking 129, World Bank 2016)
<b>Form of state</b>	Presidential Republic
<b>Head of government</b>	Juan Carlos Varela
<b>Next elections</b>	2019, presidential and legislative



### Strengths

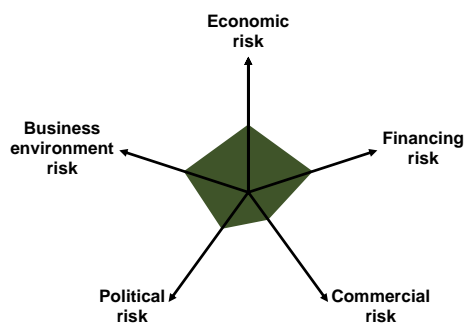
- Trade hub based on the Panama Canal and the Colon free trade zone
- Regional financial hub and international banking center
- Strong economic growth and moderate fiscal deficit
- Business environment above regional average
- Usage of the USD as local currency
- Stable political system

### Weaknesses

- Vulnerability to external shocks (global trade and financial links)
- Moderate to high debt ratios
- Rule of law and control of corruption are below average
- Disparity of income between the Canal zone and rest of country, where poverty levels are high

### Country Rating

**BB1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	14% 1	19% China
Ecuador	8% 2	18% United States
Guatemala	7% 3	13% Japan
Costa Rica	6% 4	13% Singapore
Venezuela (Bolivarian Rep. of)	5% 5	5% Colombia

By product (% of total)

Exports	Rank	Imports
Petroleum & related products	20% 1	18% Petroleum & related products
Other transport equipment	15% 2	17% Other transport equipment
Fish and preparations thereof	6% 3	11% Organic chemicals
Vegetables and fruits	6% 4	5% Apparel & clothing accessories
Medicinal and pharma. products	5% 5	5% Road vehicles

Sources: UNCTAD (2016), Euler Hermes



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## Economic Overview

### Favourable outlook for growth

Panama has been the fastest growing economy in Latin America over the past two decades. It benefitted from the activity of the canal, the Colon free trade zone (CFZ), and its role as an international banking center and a regional financial hub. Panama's economic openness relies on numerous free trade agreements. Though GDP growth in Panama has moderated from its 2011-12 highs, it is estimated to reach +5.3% in 2017 and +5.8% in 2018. Price pressures remain subdued, but should pick up in 2018-19 as commodity prices recover.

Panama's budget operates within the framework of the Social and Fiscal Responsibility Law (SFRL), which sets a yearly fiscal deficit target. In addition, the Sovereign Wealth Fund (SWF) aims to work as a stabilization mechanism to remove the cyclical effect of the Canal contributions on fiscal accounts. Fiscal consolidation is expected to continue with the deficit falling to -1.2% of GDP and public debt to 38.7% by 2019.

Panama's business climate quality ranks above regional peers. The World Bank ranks it 79<sup>th</sup> out of 190 countries in its 2017 Doing Business survey.

### Solid external position but structural vulnerabilities remain

Foreign direct investment flows comfortably cover 159.5% of the current account deficit. The latter should shrink from a high of -13.7% of GDP in 2014 to -2.7% of GDP in 2019. This is partly driven by a decline in investment-related imports as several large scale projects wind down. Panama benefits from stable financing, predominately from FDI in the form of logistics, mining and energy sector projects. It also benefits from easy access to international capital markets. The fallout of the 2016 offshore revelations and US sanctions on Panamanian entities remains limited thus far. The IMF estimates that legal services related to incorporations are estimated at only 0.7% of GDP. Moreover, Panama's authorities are strengthening anti-money laundering procedures and the country remains attractive for multinationals: 2016 saw the highest number of new headquarters being established since 2007.

External debt-to-GDP ratio is high (157.9% in 2017) although it is projected to decrease. The fully dollarized economy makes Panama dependent on the US Fed's monetary policy. Hence, it is less equipped to deal with external inflationary pressures. In addition, Panama's economic structure depends on trade. The amounts of merchandise transiting the Canal and toll revenues are highly correlated with changes in trade flows.

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 Economic Research Team  
[research@eulerhermes.com](mailto:research@eulerhermes.com)

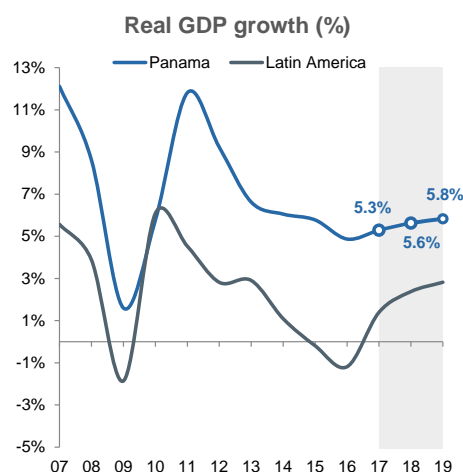
Last review: 2017-13-12  
 Country Risk Analyst:  
 Georges Dib, Nathan Carlesimo  
[georges.dib@eulerhermes.com](mailto:georges.dib@eulerhermes.com)

### Key economic forecasts

	2016	2017	2018f	2019f
GDP growth (% change)	4.9	5.3	5.6	5.8
Inflation (% , yearly average)	0.7	1.1	2.3	2.3
Fiscal balance (% of GDP)	-2.2	-1.7	-1.3	-1.2
Public debt (% of GDP)	38.8	40.0	39.5	38.7
Current account (% of GDP)	-5.7	-5.5	-3.8	-2.7
External debt (% of GDP)	166.2	157.9	148.7	139.4

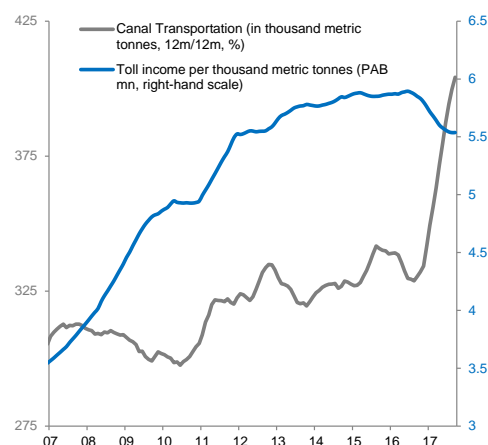
\*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes



Sources: National Statistics, IMF-WEO, Euler Hermes

### Decreased tolls to increase competitiveness and market share



Sources: National Statistics, IHS, Euler Hermes