

## Growth above regional average

### General Information



|                           |                                                 |
|---------------------------|-------------------------------------------------|
| <b>GDP</b>                | USD36.253bn (World ranking 88, World Bank 2012) |
| <b>Population</b>         | 3.8mn (World ranking 129, World Bank 2012)      |
| <b>Form of state</b>      | Constitutional Democracy                        |
| <b>Head of government</b> | Juan Carlos VARELA (PP)                         |
| <b>Next elections</b>     | 2019, presidential and legislative              |



### Strengths

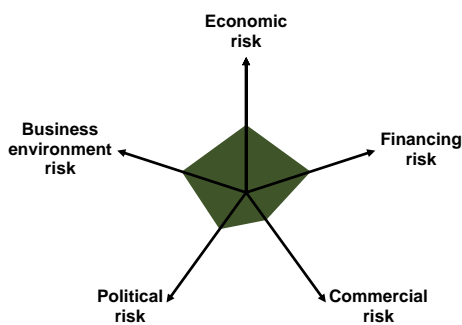
- Trade hub through Panama Canal and large Colon free trade zone
- International banking center
- Regional financial hub
- Strong economic growth
- USD as currency
- Moderate fiscal deficit
- Above average business environment
- Durable, democratic political system in past 20 years

### Weaknesses

- Disparity of income between Canal zone and rest of country where poverty levels are high
- Large current account deficit, though strong FDI inflows
- Vulnerability to external shocks (global trade and financial links)
- Moderately high debt ratios
- Rule of law and control of corruption are below average

### Country Rating

**BB1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

| Exports       | Rank  | Imports |
|---------------|-------|---------|
| Venezuela     | 16% 1 | 23%     |
| United States | 16% 2 | 23%     |
| Ecuador       | 10% 3 | 18%     |
| Colombia      | 7% 4  | 13%     |
| Guatemala     | 4% 5  | 6%      |

By product (% of total)

| Exports                 | Rank  | Imports |
|-------------------------|-------|---------|
| Pharmaceutical products | 23% 1 | 31%     |
| Apparel & clothing      | 9% 2  | 13%     |
| Petroleum products      | 9% 3  | 7%      |
| Transport equipment     | 7% 4  | 7%      |
| Footwear                | 5% 5  | 6%      |

Source: ITC, Chelem

## Economic Overview

### Strong growth driven by investment

Panama's economic growth has been above the regional average over the past 12 years, since the country fully benefits from the canal activity, the Colon free zone trade and its role as an international banking center and a regional financial hub. Panama has signed 13 Free Trade Agreements (FTA) and three more are under negotiation. However, due to its openness, Panama is highly vulnerable to external shocks, notably those emanating from the U.S. Accordingly, economic activity has steadily slowed down to +6.2% in 2014 from +10.8% in 2011. We expect growth will stand just above +6% in 2015-2016 as USD appreciation, weak international trade (decline in Canal traffic) and delays in the Canal expansion will continue to weigh on economic activity.

### Within the Top 5 LatAm countries to do business

Despite an increase in electricity tariffs implemented in January 2015 and the elimination of some price controls, inflation should be particularly low in 2015 (+1.4%) and 2016 (+2.6%), pushed down by low oil prices. Inflation is well-anchored by the use of the USD as an official currency. Although decreasing gradually, the current account deficit will remain wide, at around -10% of GDP. However, external vulnerability is under control since enough liquidity is provided by the Canal and Colon free zone's revenues and by strong foreign capital inflows, notably FDI attracted by projects underway in the mining, logistics, and energy sectors.

Public finances are sustainable. The budget operates within the framework of a Social and Fiscal Responsibility Law (SFRL), which sets a target for the fiscal deficit every year. Alongside, the Sovereign Wealth Fund aims to work as a stabilization mechanism and to remove the cyclical effect of the Canal contributions on fiscal accounts. Thus, if the fiscal deficit exceeds the SFRL ceiling and contributions from the Canal are below 3.5% of GDP, it allows financing the difference with the Fund resources. On the contrary, revenues generated by the Canal above 3.5% of GDP should be transferred to the Fund. After widening to -4.7% of GDP in 2014 due to increased current spending by the previous administration (electoral calendar), the fiscal deficit should narrow to -3.7% in 2016, and the public debt should remain below 50% of GDP. Panama benefits from easy access to international capital markets.

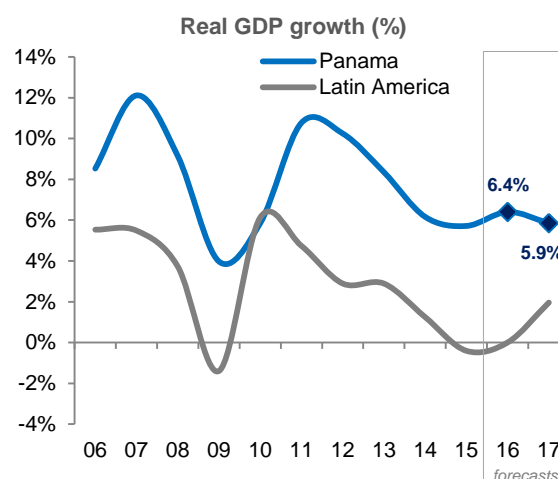
According to the World Bank, Panama is among the Top 5 LatAm countries when doing business, and ranks 52<sup>nd</sup> worldwide. While it performs in getting credit or trading across borders, paying taxes and resolving insolvencies remain important issues.

### Key economic forecasts

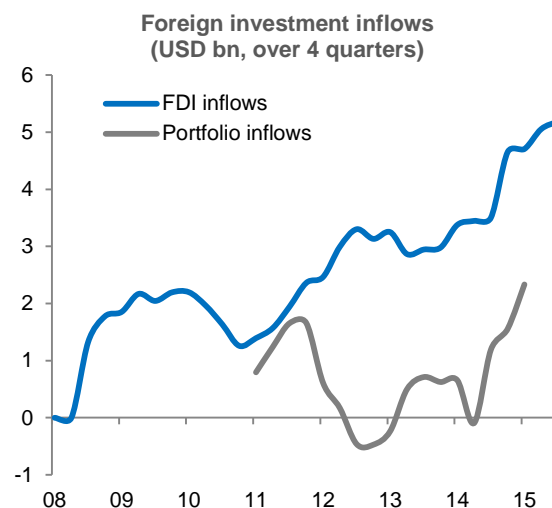
|                                | 2014  | 2015f | 2016f | 2017f |
|--------------------------------|-------|-------|-------|-------|
| GDP growth (% change)          | 6.2   | 5.7   | 6.4   | 5.9   |
| Inflation (% , yearly average) | 2.6   | 0.2   | 1.4   | 2.6   |
| Fiscal balance* (% of GDP)     | -3.6  | -4.0  | -3.7  | -3.5  |
| Public debt* (% of GDP)        | 45.6  | 47.8  | 47.8  | 45.8  |
| Current account (% of GDP)     | -10.4 | -9.7  | -8.2  | -4.9  |
| External debt (% of GDP)       | 39.3  | 44.7  | 48.7  | 51.2  |

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

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



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