

## Strong growth fueled by capital inflows

### General Information



<b>GDP</b>	USD52.132bn (World ranking 75, World Bank 2015)
<b>Population</b>	3.93mn (World ranking 128, World Bank 2015)
<b>Form of state</b>	Presidential Republic
<b>Head of government</b>	Juan Carlos Varela
<b>Next elections</b>	2019, presidential and legislative



### Strengths

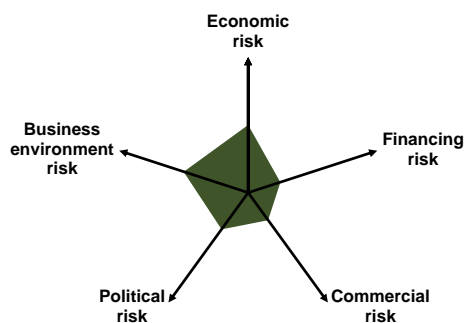
- Trade hub based on the Panama Canal and the Colon free trade zone
- Regional financial hub and international banking center
- Strong economic growth and moderate fiscal deficit
- Above average business environment
- Usage of the USD as local currency
- Stable political system

### Weaknesses

- Vulnerability to external shocks (global trade and financial links)
- Large current account deficit as a result of strong FDI inflows
- 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 20%	1	United States 26%
Germany 13%	2	China 10%
Costa Rica 8%	3	Mexico 5%
China 6%	4	Costa Rica 4%
Netherlands 4%	5	South Korea 4%

By product (% of total)

Exports	Rank	Imports
Fish and seafood 22%	1	Mineral fuels 14%
Fruit 20%	2	Industrial machinery 11%
Wood and wood articles 5%	3	Vehicles 11%
Food residues 5%	4	Electrical machinery 8%
Iron and steel 5%	5	Iron and steel articles 4%

Sources: Comtrade, Euler Hermes



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## Economic Overview

### Investment drives good growth performance

Panama's economic growth scores above the regional average. The country benefits from the canal activity, the Colon free zone trade, and its role as an international banking center and a regional financial hub. Panama's economic openness relies on numerous free trade agreements. At the same time, this increases vulnerability to external shocks, notably from the U.S. Economic activity has slowed down from +11.8% in 2011 at a gradual pace. Euler Hermes expects an output growth of +4.8% in 2016. The USD appreciation, a weak international trade which translated into a decline in Canal traffic and delays in the waterway's expansion will continue to weigh on economic activity.

Inflation is well-anchored by the use of the USD as the official currency. Despite a hike in electricity tariffs in 2015 and the elimination of some price controls, inflation was particularly low in 2015 at +0.1%. It should remain sluggish in 2016 (+0.7%) if oil prices remain low for long. The current account deficit will continue to be large: above -3.0% of GDP in 2017.

### Sustainable public finances

Panama benefits from easy access to international capital markets and external vulnerabilities are under control. Ample liquidity is provided by the Canal, the Colon free zone's revenues and strong foreign capital inflows (notably FDI). The latter are driven logistics, mining and energy sectors projects.

The 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 and remove the cyclical effect of the Canal contributions on fiscal accounts.

On the one hand, if the fiscal deficit exceeds the SFRL ceiling and contributions from the Canal are below 3.5% of GDP, the gap can be bridged with the SWF resources. Yet, if Canal related revenues climb above 3.5% of GDP the surplus is transferred to the SWF.

Euler Hermes expects the fiscal deficit to narrow to -1.7% in 2017. Public debt should remain below 40% of GDP.

### Relatively good business environment

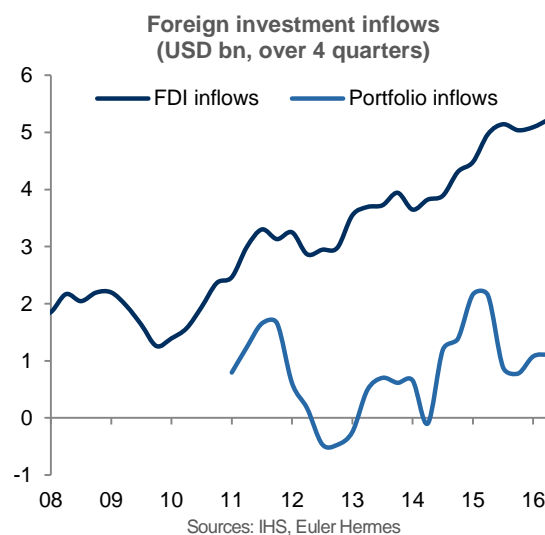
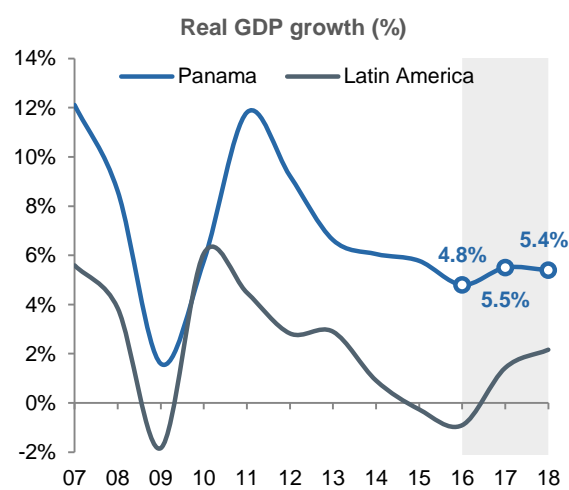
According to the World Bank, Panama is among the best countries in the region for doing business. It is ranked 70 worldwide in the 2016 survey. Panama performs well on indicators such as getting credit, getting electricity and starting a business but not so much in paying taxes, enforcing contracts, and resolving insolvencies.

### Key economic forecasts

	2015	2016	2017	2018
GDP growth (% change)	5.8	4.8	5.5	5.4
Inflation (% , yearly average)	0.1	0.7	1.5	1.8
Fiscal balance* (% of GDP)	-2.3	-2.5	-1.7	-1.5
Public debt* (% of GDP)	38.8	39.0	38.1	36.7
Current account (% of GDP)	-6.5	-4.0	-3.4	-2.3
External debt (% of GDP)	43.4	48.1	51.0	51.3

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

Sources: National sources, IMF, IHS, Euler Hermes



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