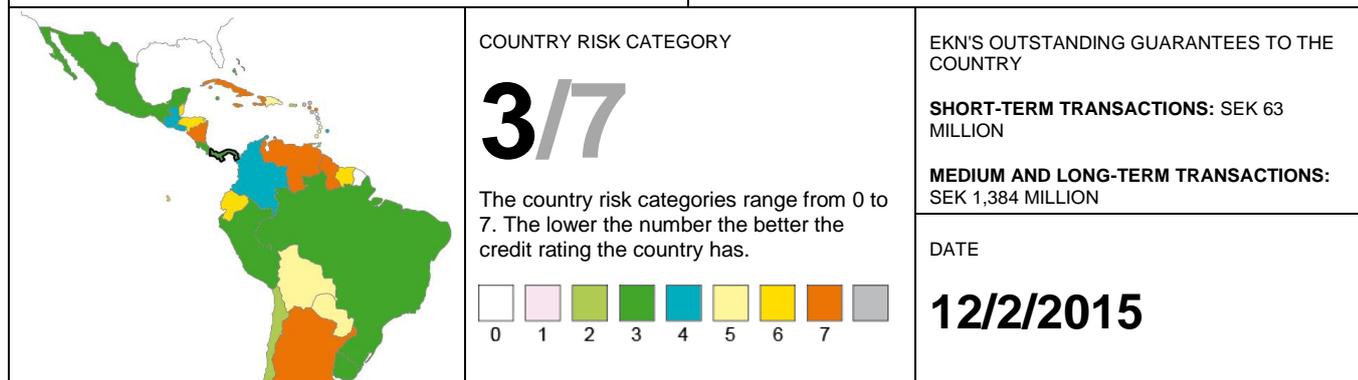


Panama



Highest growth in Latin America

Panama's economic growth has been very favourable in recent years. The country has delivered the highest growth in the region, driven by extensive investments. The Panama Canal and the stability resulting from the dollarisation of the economy are two solid foundations that have played a role in making the country attractive as a regional, financial and logistical hub. As the public infrastructure projects wind down and the growth rate slows in the coming years, the greatest challenge will be to pursue responsible fiscal policies. The country's ability to comply with applicable budget regulations has proven weak, but otherwise the country's economic policies are stable and investor-friendly. However, the country's regulatory environment and institutional framework are somewhat underdeveloped. The progress has been small and some signals indicate that the development has even been reversed during the past administration. The new president has promised to take a heavy hand to the widespread corruption in the country, but this process is at risk of being delayed by the lack of a parliamentary majority. Overall, Panama's outlook is considered positive, thanks to political stability, and a strong and diversified economy.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

Strengths

- Strong economic growth and economic stability.
- Relatively good economic diversification.
- Extensive investments have boosted the country's long-term growth potential.
- Low unemployment

Weaknesses

- Deficient regulatory environment and institutional maturity.
- The country's lack of monetary policy tools make it vulnerable to external events.
- Low skill and education level of workforce.

Stable country risk category

EKN has categorised Panama in country risk category 3 since the country was upgraded in 2007. The country risk categorisation is made in collaboration with the other OECD countries. The stable dollarisation of the Panamanian economy puts Panama in a group of countries where companies can be considered stronger than the government and thus have a lower premium. EKN has no special, general restrictions for buyer categories or credit periods. Instead, each transaction is assessed on its own merits

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

The policy may be made less restrictive in the event of

- A long-term reduction in the current account and budget deficit.
- Institutional development and improved political transparency.
- An increase in national reserves to enable more flexible fiscal policies

The policy may be made more restrictive in the event of

- Unsustainable public finances with a continuing lack of budgetary discipline and an increasing budget deficit.

EKN'S EXPOSURE AND EXPERIENCE

Transport sector dominant

EKN's exposure to Panama totalled over SEK 1.5 billion at the end of 2014, with outstanding guarantees accounting for SEK 1.4 billion and offers comprising the rest. This makes Panama one of the countries EKN has the highest exposure to in Latin America in spite of the small size of its economy. EKN's exposure largely consists of guarantees in the transport sector. EKN is also seeing a small inflow of transactions in areas such as machinery equipment.

EKN's experience of buyers in both the public and private sector has generally been good. For transactions involving the public sector, the limited administrative capacity of the country may result in a certain degree of slowness, but EKN's payment experience has been good.

COUNTRY ANALYST



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DISCLAIMER

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Political continuity

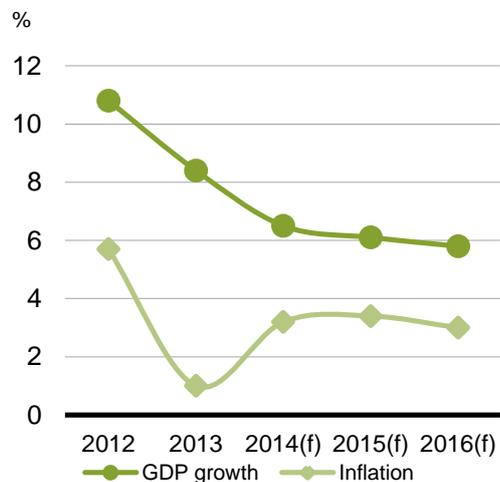
The results of last year's presidential elections were unexpected, with underdog candidate Varela winning, but his Panameñista Party failed to secure a majority in parliament. In spite of the surprising shift in power, political continuity in Panama is highly likely. The governing party and the opposition are largely in agreement on pursuing market oriented policies with a focus on stimulating investments and competitiveness. Upon taking office, Varela announced a political agenda containing two areas of priority: social measures and combating corruption. In spite of Panama's strong growth, nearly one-fourth of the population of Panama live in poverty. Varela has therefore promised resources for improving education, raising pensions and other social programmes. Accusations of widespread political corruption and lacking transparency brought about an extensive inquiry expected to really go after the previous administration. How successful Varela will be in implementing his political promises remains to be seen. However, the limited number of seats of the governing party and a rising budget deficit indicate that the majority of the reforms will be difficult to implement. A referendum in 2006 decided on the expansion of the Panama Canal. This multi-billion dollar project expected to double the capacity of the canal is planned to be completed in December 2015. An ongoing conflict between the Spanish construction company and the government has delayed the project slightly. The sitting government will prioritise the completion of this prestigious project, but the opening of the canal will probably be delayed until 2016.

Strong growth, but lacking budgetary discipline concerns

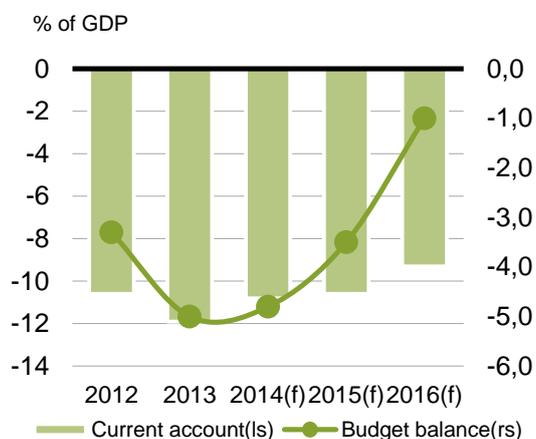
Panama's economy is small, open and dependent on the international community. Its economy is well diversified in proportion to its size, as no single sector accounts for more than 8% of GDP. Panama has been one of the fastest-growing countries in the world over the past five years, with an annual growth rate of around 9%. Panama's GDP per capita has more than doubled over the past decade. Extensive public and private investments have driven growth and contributed to increasing competitiveness and productivity in several sectors. In addition to the construction of the canal, investments have been made in infrastructure, transport and public facilities. The construction industry, the financial sector, agriculture and the free trade zone in Colón are key areas of the economy. In addition, the mining sector and tourism are experiencing strong growth. When investments are complete in the coming years, the growth rate is expected to fall, but continue to be among the highest in the region at around 6%. The previous overheating tendencies have subsided, but there is a risk of inflation taking an upward turn in the event of too expansionary fiscal policies. The shortage of qualified labour is a structural problem in Panama. Only one-third of the working population has attained an upper secondary educational qualification. This shortage of labour will hamper Panama's economic growth in the long term.

The Panamanian economy has been fully dollarised for over 100 years. This dollarisation has resulted in lower inflation, interest rates and transaction costs. However, the lack of monetary policies as economic policy instruments create high sensitivity to international fluctuations. The public finances of the country are in good condition overall. In spite of the extensive infrastructure investments, the public debt's share of GDP has continuously fallen from 66% in 2006 to just over 40% seven years later. Revenues have increased thanks to strong growth and tax reforms. In addition, the country has a favourable debt profile with long terms and solid access to the capital market. However, we have seen little budgetary discipline.

Repeated exceptions have been made from applicable budget regulations which limit the budget deficit. This undermines credibility and is problematic, especially with a slower growth rate. International forecasts predict that public spending will be consolidated in the future, but the necessary political measures have not yet been taken.



Source: WEO/World Bank



Source: WEO

The extensive investments in Panama over the years have led to an increase in imports and created a sizable current account deficit. The deficit has been fully financed by foreign direct investment. A de-escalation of the rate of investment will reduce import volumes and decrease the deficits, but the country's trade and current account deficits are still expected to remain relatively large. The country's external debt, the majority of which is private, is high at around 130% of GDP. However, this level is considered sustainable and there is a trend towards a decrease in debt. Nearly half of the country's external debt is also comprised of the deposits of foreign investors into the local financial sector. There is no foreign exchange risk due to the dollarisation of the economy. However, the strengthening of the USD makes Panama less competitive. The effect of this is partially limited, as a large portion of the country's exports go to the US, but exports are expected to decline to a certain extent.

BUSINESS ENVIRONMENT

Favourable business climate with some difficulties

The business climate in Panama is good overall and has benefited from the prevailing political consensus on policies to promote investment. Panama is ranked above average for most business climate indicators in comparison to other countries in the region. The World Bank's Doing Business rankings put the country in 52nd place out of a total of 189 countries, and number five in the region. A series of business-friendly reforms have been made to attract foreign direct investment. The country has a positive view of free trade and new agreements with several key trade partners such as the EU, the US and Canada are expected to further facilitate trade. However, there are deficiencies in other areas that are having a negative impact on the business environment. Corruption is seen by companies as the greatest obstacle to investing in the country. The legal system is also considered weak in an international context with high levels of corruption and political meddling. According to the World Bank's governance index, Panama is below the regional average in terms of both corruption and rule of law. The legal system is also considered ineffective and is ranked low on enforcing contracts and resolving insolvency. The shortage of educated labour, weak administration and low transparency are also complicating factors for the business sector.