

Friday January 18th 2019 – 11:25am

International

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Key economic outlook:

- On December 12, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Panama.
- Growth is estimated at 3.7% in the first half of 2018 (compared to 5.4% a year ago), reflecting a sharp deceleration in key sectors including construction, which was affected by a prolonged strike in April/May.
- Inflation remains subdued at 0.8% (year on year) in September 2018, (compared to 0.5% in December 2017) despite supply shocks that have increased food and fuel prices.
- The overall deficit of the Non-Financial Public Sector (NFPS) reached 1.6% of GDP in the first half of 2018 (compared to deficit of 0.2% of GDP in the first semester of 2017), due to accelerated budget execution to support the economic weakening.
- The external current account deficit stood at 8.0% of GDP in 2017, as a significant increase in oil imports (fueled by higher international oil prices) was offset by strong service exports, driven partly by additional revenue from the expanded Panama Canal.
- Credit growth has decelerated as financial conditions have started to tighten.
- The outlook remains positive, albeit set against heightened downside risks. Growth is projected at 4.3% in 2018, but to rebound to 6.3% in 2019 supported by the opening of a large mine (Minera Panamá) and a recovery in construction, and subsequently converge to its potential of 5.5% over the medium term.
- Inflation is expected to average about 2%. The external current account deficit, mostly covered by FDI, is expected to reach 9% of GDP in 2019 and gradually decline to about 5.5% of GDP over the medium term.

- Fiscal policy is expected to remain guided by the amended Fiscal Responsibility Law (FRL). The overall NFPS deficit is projected to increase to 2% of GDP in 2018–19 and gradually fall to 1.5% of GDP over the medium-term, keeping public debt sustainable and below the FRL indicative of target of 40 percent of GDP.

Key risks to outlook:

- Setbacks in implementing Financial Action Task Force (a comprehensive and consistent framework of measures which countries should implement in order to combat money laundering and terrorist financing) recommendations.
- Making continued progress on tax transparency.
- Delays in completing the large mining project (following the recent Supreme Court ruling which creates uncertainty about some elements of the contract).
- Political uncertainty ahead of the upcoming elections (05 May, 2019).
- A sharper-than-expected tightening of global financial conditions.
- Rising trade protectionism.

S&P Rating Action:

- On July 2, 2018, S&P Global Ratings revised its outlook on Panama to positive from stable. At the same time, S&P affirmed 'BBB/A-2' long- and short-term sovereign credit ratings. The transfer and convertibility (T&C) assessment is unchanged at 'AAA'.
- The positive outlook reflects the at least one-in-three possibility of an upgrade over the next two years if continued impressive growth further strengthens the pillars of Panama's economy, while public finances and the country's external liquidity position both remain stable.
- S&P could revise the outlook to stable over the same period if there is an unexpected drop in Panama's economic growth trajectory or a deterioration in fiscal or external indicators that erodes the country's economic profile.
- Larger-than-expected increases in government debt or an erosion of Panama's external liquidity could negate the impact of growing prosperity in our assessment of the sovereign's creditworthiness.

Panama Credit Ratings

Republic of Panama

Moody's		Fitch	
1) Outlook	POS	15) Outlook	STABLE
2) CC LT Foreign Bank Depst	Baa1	16) LT Issuer Default Rating	BBB
3) CC LT Foreign Curr Debt	A2	17) LT LC Issuer Default	BBB
4) CC ST Foreign Bank Depst	P-1	18) Foreign Currency LT Debt	BBB
5) CC ST Foreign Curr Debt	P-1	19) Local Currency LT Debt	BBB
6) Long Term Rating	Baa2	20) ST Issuer Default Rating	F2
7) FC Curr Issuer Rating	Baa2	21) ST LC Issuer Default	F2
8) Foreign Currency LT Debt	Baa2		
9) Standard & Poor's		Dagong Global Credit Ratings	
10) Outlook	POS	22) LT Foreign Crncy Outlook	STABLE
11) Foreign Currency LT Debt	BBB	23) LT Local Crncy Outlook	STABLE
12) Local Currency LT Debt	BBB	24) LC LT Sovereign ratings	A-
13) Foreign Currency ST Debt	A-2	25) FC LT Sovereign ratings	A-
14) Local Currency ST Debt	A-2		
		Duff & Phelps	
		26) Foreign Currency LT Debt	WR

Source: Bloomberg

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