



Panama

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Research & Analytics

COUNTRY		CREDIT RATING		TRADE	
Real GDP growth (%) 2015	6.10%	S&P Foreign Currency	BBB (S)	Partners:	US 20.2%, Canada 14.6%, Costa Rica 6.6%, Netherlands 5.9%
Real GDP growth (%) 2016	IMF	Fitch Foreign Currency	BBB (S)	Exports	Gold, bananas, shrimp, sugar, iron and steel waste, pineapples.
Exchange Rate (USD/PAB)	PAB 1.00	Moody's Foreign Currency Debt	Baa2 (S)	Foreign Reserves	US 3.874 billion
FX Direction	fixed peg			Reserve Direction	Climbing
				Import Cover	>2
				Direction	Stable
INFLATION		POLICY INTEREST RATE			
Target Rate		Target Rate	none		
Current Month (y/y)	0.00% Nov	Current Rate	-		
Direction	Stable	Direction	-		
Forecast 2015	2.40%	Last Year 2014	-		
		No central bank. Dollarized economy.			
FISCAL		POLITICAL			
Budget Deficit (%) 2015	3.7% IMF	Last Election	May-14		
Deficit Trend	Elevated	Next Election	May-19		
Debt/GDP	38%	Term	5		
Debt Direction	Stable Moody's	Other			

updated Jan 2016

ECONOMIC OUTLOOK

The Panamanian economy expanded by 5.6% in the third quarter of 2015, following 5.8% in the second quarter. Growth in Q3 2015 was seen in financial intermediation, construction industry, supply of electricity, mining and quarrying, transport and communications, real estate and business services, private health and government services. Construction activity will slow from the double digit figures seen previously as the Canal expansion nears completion. The Canal accounts for 10% of GDP. Once complete, the IMF expects that the expanded Canal and the new copper mine (Minera Panama, in 2018) will help maintain growth at 6% to 7% over the next five years.

Growth in 2015 was forecasted at 6.1%, driven by the expansion of the Panama Canal and the country's position as a regional logistics hub. The canal expansion is earmarked for completion in April 2016. The canal also makes possible other important activities such as the Colon Free Trade Zone (CFZ) and the Trans-Panama Pipeline, which allows for the transport of crude oil between the Pacific and Atlantic coasts. Panama benefits from a very diversified economy with the service sector (insurance, finance and legal services) accounting for 75% of GDP. Further diversification is expected in canal operations, mining, logistics services, tourism and financial services.

updated Dec 2015

INFLATION MONETARY POLICY & BANKING

Annual inflation was reported at 0% (y/y) in November 2015, up from -0.4% in October. While inflation remains above historically low levels, it is not a major concern at the moment. Inflation was projected at 2.4% in 2015, however low oil prices will likely result in a lower revised estimate. **Panama does not have a central bank** and the country has a dollarized economy, so that authorities lack the freedom to use monetary policy or exchange rate adjustments to reduce inflation.

Breakdown of Banking Sector Loans (National Banking System)

During the first quarter of 2015, the largest segments were trade and distribution (27% of total loans), mortgages (28%), personal loans (20%) and construction (11%). The banking sector's nonperforming-loan ratio has been reported at approximately 1% of total loans in 2014, down from 4.2% in 2009 and the capital adequacy ratio for the system is 14.8% (This is comparable to an average ratio of 15.6% recorded for the Brazil, Chile Colombia, Mexico and Peru grouping).

In December 2015, Fitch Ratings noted that risks in the Panamanian banking system are on the rise, but the impact on the banks' balance sheets is expected to be gradual due to the still favorable operating environment. "Liquidity should remain adequate, though some investments might lose value if international interest rates rise. The industry has limited upside potential in the short term, with any improvement unlikely until pressure on interest margins, profitability, and asset quality is reduced."

TRADE BALANCE/ BOP

The IMF (in August 2015) estimated the 2015 current account deficit to have fallen to 10.4% of GDP from 12% one year earlier. However FDI inflows are expected to cover this shortfall. A problem with collecting payments from Venezuela has contributed to the deficit (Venezuela is the largest importer from the colon free trade zone and the third largest importer overall) and this is likely to suffer substantially with the low price outlook on oil. The recovery of the US economy should support growth in Panama. Panama benefits from rising FDI inflows to finance the deficit. Portfolio inflows are a relatively small contributor to foreign exchange inflows. Gross international reserves in 2015 are projected at USD3,874 million and should provide in excess of 2 months of cover.

FISCAL ACCOUNTS

Panama ran a deficit of 4.1% of GDP in 2014 (Panama's Fiscal and Social Responsibility act specifies a ceiling deficit of 2.8% of GDP). It is forecast to decline further over the next two years. Debt to GDP ratio stands at 46% (IMF Aug 2015). The structure of Panama's debt should be noted, with 75% foreign currency debt and 25% domestic. There have been no recent changes to Panama's credit ratings. S&P maintains a stable outlook based on their expectation that the government will continue to implement its investment plans and sustain good economic growth rates without eroding its fiscal stance or reversing the gradually declining debt burden. Moody's Investor Services affirmed its Baa2 rating on Panama with a *stable* outlook in December 2015, based on Panama's continued strong economic performance despite external headwinds, and fiscal metrics that remain in line with Baa medians. Moody's expects government debt to GDP will remain relatively stable at around 38% in 2015 -17

KEY ISSUES

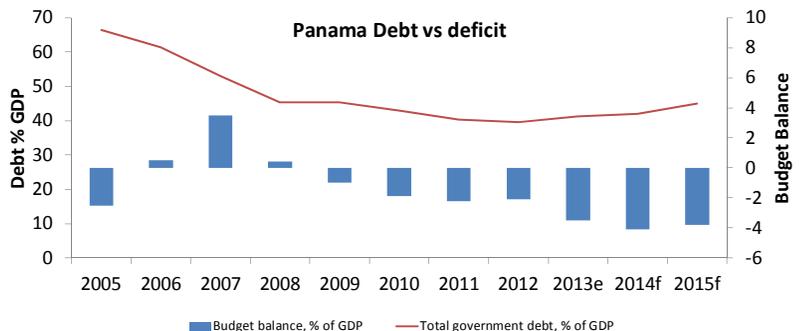
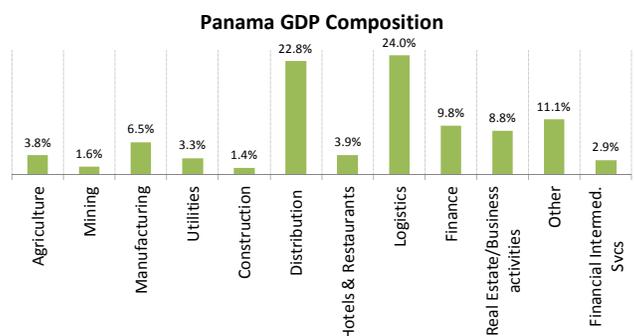
- >Fitch sees the fiscal deficit falling to 3.6% in 2015.
- >Canal expansion is a major growth pole and is set to open in 2016.

BUSINESS ENVIRONMENT

The country boasts of a strong trade environment due to the Colon Free Trade Zone and business friendly government policies which help encourage the free flow of trade. Further, Panama has a highly sophisticated logistics network as the support infrastructure for the Panama Canal has improved the country's infrastructure relative to its peers. Strong financial services firms bolster Panama's trade and investment environment. Panama is not expected to change its investor friendly business environment though there have been some indications from President Valera of new government intervention into the economy.

OUTLOOK

With a moderate debt load, low inflation rate and strong Foreign Direct investment Inflows, Panama remains a strong credit. The recovery of the global economy and completion of the Panama canal extensions will contribute to its strength. As a result of this First Citizens Research & Analytics holds a POSITIVE view on Panama. The effect of low oil prices on Panama's trade health (via Venezuela) should be monitored.



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