

**COUNTRY PROFILE:****REPUBLIC OF PANAMA**

IES/02: ATTACHMENT A

**DATED:****SEPTEMBER 2008****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restriction

**Recent Political Highlights**

- ❑ Martin Torrijos, the son of the former military leader Omar Torrijos, won the May 2004 presidential elections. The next elections are scheduled for May 3<sup>rd</sup> 2009. Panamanians will also be electing a new national assembly.

**Recent Economic Highlights**

- ❑ Panama's dollarised economy is based primarily on a well-developed services sector that accounts for nearly 80% of GDP.
- ❑ Panama's GDP grew 11.2% in 2007 after increasing 8.7% in 2006, driven by ports, construction, internal demand, consumption of consumer goods and exports. The large service sector benefited strongly from regional and international trade expansion. Construction soared and the well developed financial centre quickly responded to new opportunities and has attracted significant new investment.
- ❑ Growth is expected to continue to be strong as the canal expansion and the refinery projects continue to grow. The government projects growth to continue above 8% annually through to 2011 due to many long-term construction projects. The IMF forecasts growth at 8.3% in 2008. Inflation accelerated sharply reaching almost 9% in May after averaging 1.5% in the last twenty years due to high food and energy prices.
- ❑ According to the latest research from international analysts, Albania and Panama are the top two locations for long term property investment. Since the government announced plans to expand the Panama Canal in October 2006, property values have been growing around 25% y/y. Panama is currently growing into one of the world's main financial and banking centres, with good communications and first class world amenities.
- ❑ The Canal, the only waterway linking the Atlantic and Pacific oceans, is rapidly becoming too small for today's ships. The \$5.3bn canal expansion project is expected to take eight to ten years to complete. The peak construction period is expected to be from 2009-2011 providing 7,000-9,000 direct jobs.
- ❑ The tourism and eco-tourism industries have grown rapidly as many high-end hotels in Panama City have a 100% occupancy rate. Panama is working hard to attract new companies and investments into the country. Public and private investment in Panama, both domestic and foreign, is forecast to exceed \$20bn between 2008 and 2010.
- ❑ The fiscal surplus is projected to fall below 1% of GDP in 2008. A new Fiscal Responsibility Law that sets a deficit limit of 1% of GDP for the non financial public sector (NFPS), excluding Panama Canal Authority, and a debt target of 40% of GDP by 2015 was approved by the National assembly in early May and should help sustain improvements in public finances. The NFPS turned from a deficit of about 5% of GDP in 2004 into a surplus of 3.5% in 2007, despite a major increase in capital spending in 2007.

**Latest Trade Developments**

- ❑ Panama has bilateral free trade agreements with Chile, El Salvador, Taiwan, Singapore, Honduras and Costa Rica. It is exploring free trade negotiations with Mexico and other Latin American countries. The US and Panama signed a Trade Promotion Agreement in June 2007 and it is awaiting US congressional approval to enter into force.
- ❑ Main exports: bananas, shrimp, sugar, coffee and clothing.
- ❑ Main imports: capital goods, foodstuffs, consumer goods and chemicals.
- ❑ Major trade partners: US, Germany, Spain, Italy, Belgium, Netherlands, Japan, China and Singapore.
- ❑ South African exports to Panama totaled R282.4m in 2006, R133.6m in 2007 and R29.4m in the year-to-March 2008.

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