

COUNTRY PROFILE:**REPUBLIC OF PANAMA****DATED:****MARCH 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>Export Department Comment/ Opinion</i>	Rating 3C. Cover is considered on a case-by-case basis. We have limited underwriting experience. We have not paid any claims in this market.
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Recent Political Highlights

- ❑ President Ricardo Martinelli, a supermarket tycoon, was elected in 2009. He has since revealed his government would submit plans for a constitutional reform that includes a reduction in the amount of time a former president would have to wait before being eligible to run for reelection. Currently, former presidents have to sit out for ten years, and Martinelli would propose reducing that to five.

Recent Economic Highlights

- ❑ Strong economic performance has not translated into broadly shared prosperity as Panama has the second worst income distribution in Latin America. About 30% of the population lives in poverty. From 2006 to 2010 poverty was reduced by 10% while unemployment dropped from 12% to 6% of the labour force.
- ❑ President Martinelli is confident that since the economy grew 7% in 2010, 2011 will be even better and "Panama will be one of the most dynamic economies in Latin America", he expects growth rates between 8 and 9%.
- ❑ Before the financial crisis, Panama's economy was growing at double digit rates but the crisis reduced it to only 3.1% in 2009. According to Panama Economy Insight the economy will grow 9.2% in 2011 and again in subsequent years to levels that existed before the crisis, growing 13% and 11% in 2012 and 2013.
- ❑ The Panama Canal (80 km long) represents nearly 5% of world trade with more than 13,200 ships passing through each year; it is the quickest route to get from the Pacific to the Atlantic ocean. The US has a railway line between California and the East Coast which is faster but more expensive than the canal. China dreams of controlling the trade in Latin America by creating an alternative to the Panama Canal. The idea is to build a railway that would interconnect the Atlantic and Pacific oceans through Colombian soil. It will be a 'dry canal' more than 200 miles long. The estimated cost of the project is \$7, 7 billion dollars and the Chinese are willing to invest in the project.
- ❑ The expansion of the Panama Canal will cost \$5.3 billion; the project started in 2009 and has remained on schedule and on budget and will be completed by 2014. The United States and China are the top users of the Canal. Construction of the first metro line in Panama City in the amount of \$1.5 billion and the construction of a copper mine for a total investment of \$4.3 billion will start in 2011. Hotel investment in 2010-2012 is estimated by the Panamanian Association of Hotels (APATEL) at \$2.4 billion. The government plans to make public investments amounting to \$13.6 billion during the period 2010-2014 with the electricity sector receiving \$4.4 billion over the next six years. Panama's economy is growing very strongly despite the fact that large investment projects have not fully started.
- ❑ Panama faces the challenge of shaking off its reputation as a major transit point for US-bound drugs, illegal immigrants and as a haven for money-laundering. Seeking removal from the Organization of Economic Development's gray-list of tax havens, Panama recently signed various double taxation treaties with other nations.
- ❑ The government has opened tender applications for a copper deposit in Cerro Colorado. President Ricardo Martinelli insisted that "no mining concession or exploitation will be made in a district in any area" of indigenous lands. However the indigenous people say the new law would spoil pristine rainforest areas and force their communities to relocate.

Latest Trade Developments

- ❑ Major exports: bananas, shrimp, sugar, coffee and clothing
- ❑ Major imports: capital goods, foodstuffs, consumer goods and chemicals
- ❑ Main trading partners: Greece, US, Japan, Germany, Italy, Singapore and China.
- ❑ SA exports to Panama in 2008 totaled R46m; in 2009 it totaled R43m and in 2010 it totaled R479m.
- ❑ SA imports from Panama in 2008 totaled R9.8m; in 2009 they were R7m and in 2010 it totaled R1.8m.