

# General Overview on Panama's Economy and Investment Climate



GOBIERNO DE LA REPÚBLICA DE  
**PANAMÁ**

# General Information About Panama

- **Capital:** Panama City
- **Total Area:** 75k Sq km
- **Population:** 3.9MM (2014 estimate)
- **Political Division:** 10 Provinces and 5 Indigenous Regions
- **Government:** Constitutional Democracy
- **Currency:** US Dollar, since 1904
- **Language:** Spanish (Official), English (Commercial)



# Panama: The Path of Growth

Source: Index Mundial, World Bank, Panama Canal Authority, and CIA World Fact Book

## 1999

## 2013

\$7,600

### GDP Per Cápita

• The standard of living in Panama has increased over the past 14 years

\$15,300

\$21 BILLION

### Total GDP

• The development of the logistics sector and FDI growth over the past years has improved key economic sectors in Panamá.

\$51.26 BILLION

FEWER THAN 10

### MHQ

• A friendly legal framework for investors including attractive tax incentives have led Panama to become a center for MHQ in LAC

MORE THAN 100

2%

### Annual Industrial Prod. Growth

• Panama is undergoing robust construction initiatives and manufacture industries with an average growth between 4 to 10% over the last 10 years

10%

\$4.7 BILLION

### Exports

• Panama's exports have grown 3 fold since 1999 demonstrating the growth of industry and service

\$17.97 BILLION (2012)

\$6.4 BILLION

### Imports

• A high demand of foreign products and consumer spending, luxury goods, construction materials, automobiles and more.

\$22.95 BILLION

\$500 MILLION

### Panama Canal Revenues

• Currently 90% of the world's ships can pass through the Canal, providing high revenues from ship transit

\$1.85 BILLION

37% LIVE BELOW

### Poverty Rate

• Several social programs are running with a common purpose to reduce general poverty in Panama. Results are shown over the last decade.

27.6% LIVE BELOW

550,026 ANNUAL TOURISTS

### Tourism

• In 2012 Panama was voted No1 tourist destination for 2012 in several global publications including New York Times

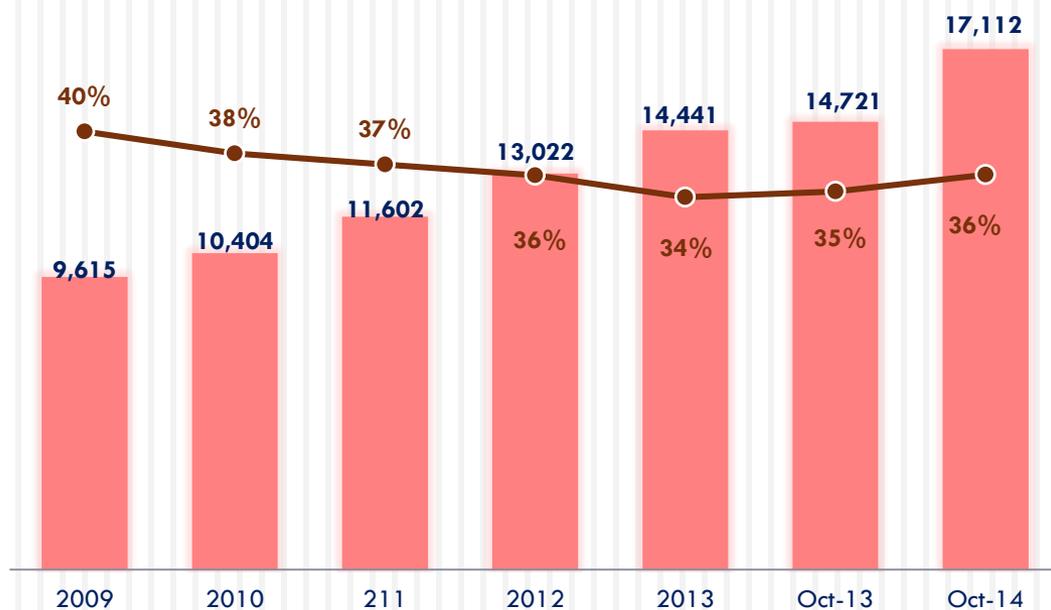
2.08 MILLION

ANNUAL TOURISTS

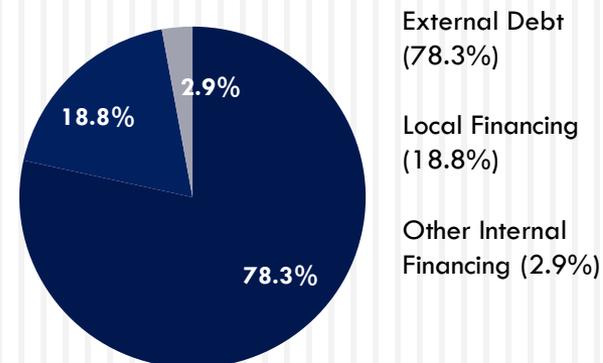
# Macroeconomic Environment

## Net Debt vs. Net Debt/GDP Ratio

(In MM, USD)

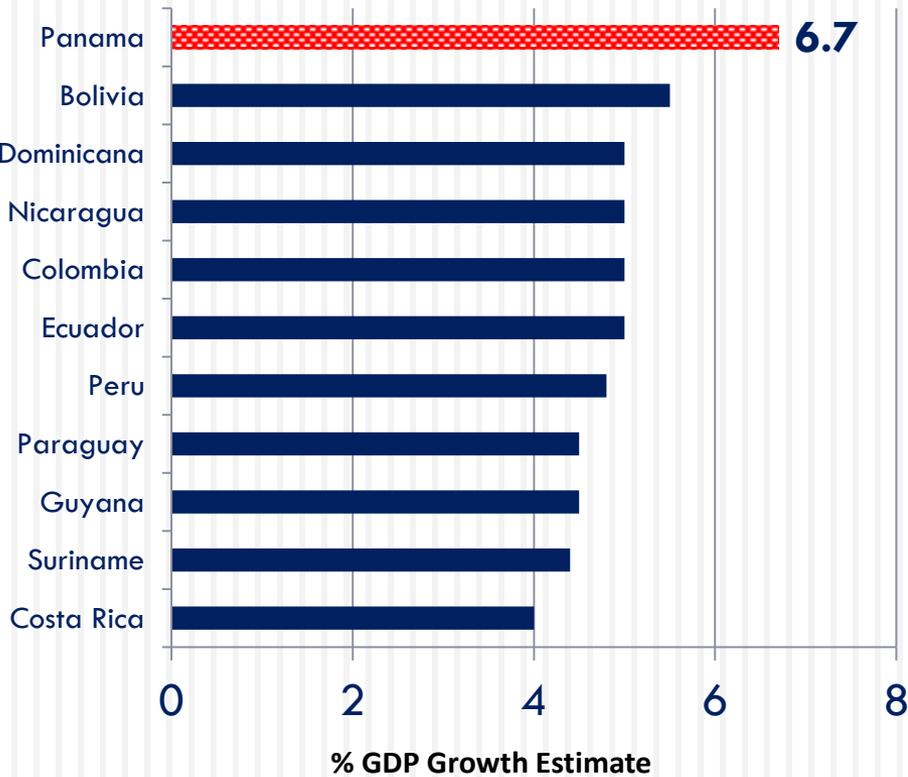


## Debt Composition

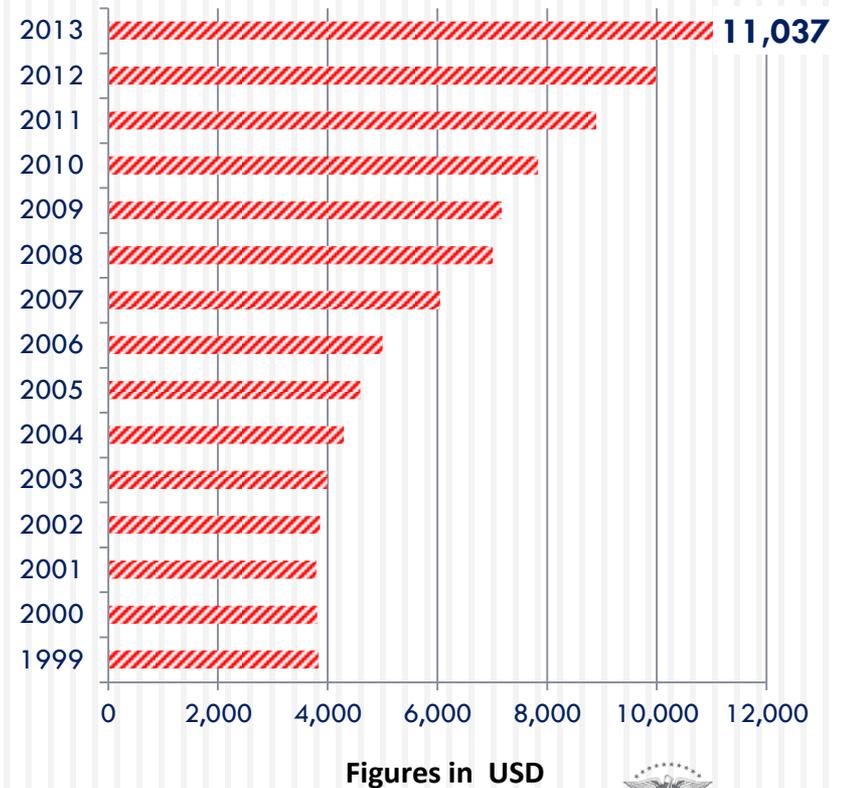


# Favorable Macroeconomic Environment

## Estimated growth 2014% of GDP in Latin America and the Caribbean ECLAC

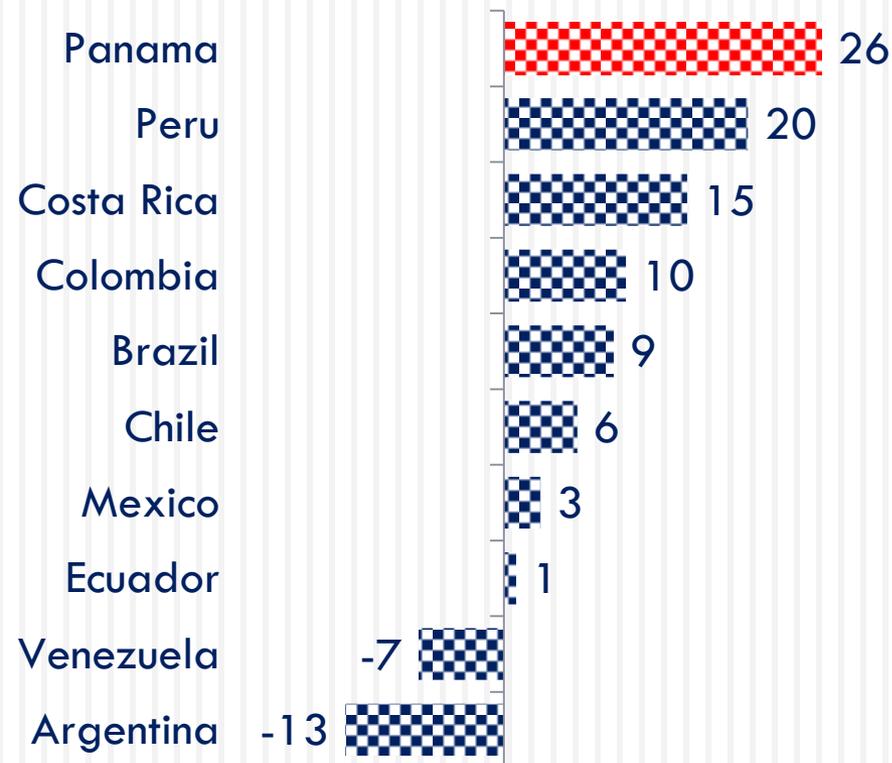


## Evolution of GDP per capita of Panama. 1999-2013



# A Country Open for Business

## Ranking Doing Business\*2009-2014 Variation in the number of positions



Country	Global Ranking 2013	Global Ranking 2014
Chile	34	34
Peru	39	42
Colombia	42	43
Mexico	51	53
<b>Panama</b>	<b>61</b>	<b>55</b>
Guatemala	93	79
Uruguay	85	88
Costa Rica	109	102
Belize	104	106

# Investment Grade

Rating Agency	Term	Rating	Date	Perspective
<b>STANDARD &amp; POOR'S</b>	Long Term; Foreign Currency	BBB	July 2, 2012	<b>Stable</b>
	Short-Term Foreign Currency	A-2	July 2, 2012	
	Long-Term Local Currency	BBB	July 2, 2012	
	Short Term Local Currency	A-2	July 2, 2012	
<b>Fitch Ratings</b>	Long Term; Foreign Currency	BBB	March 7, 2014	<b>Stable</b>
	Long-Term Local Currency	BBB	March 7, 2014	
	Short Term Local Currency	F3	March 7, 2014	
<b>MOODY'S</b>	Long Term; Foreign Currency	Baa2	Oct 31, 2012	<b>Stable</b>
	Long-Term Local Currency	Baa3	Jun 9, 2010	

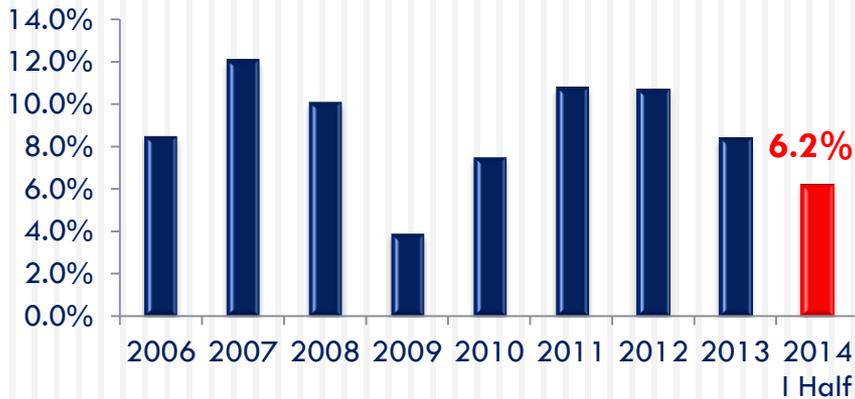
➤ The stable outlook suggests that no changes are expected in the next 2 years.

➤ Rating agencies expect average growth rates of 6% without significant changes in fiscal policy.

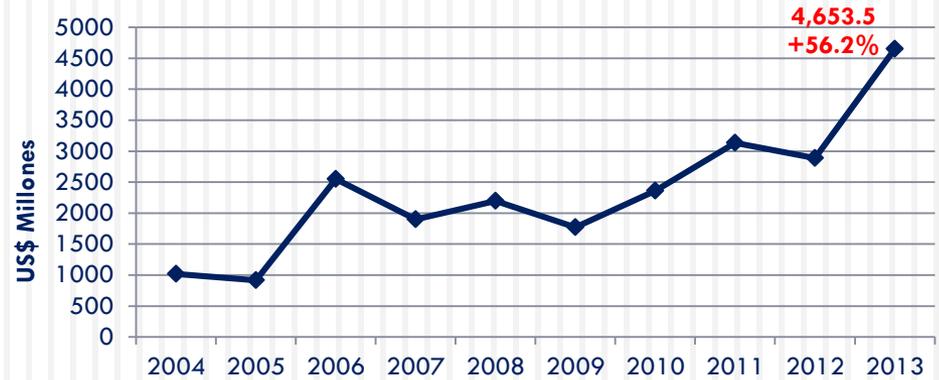


# A Growing Economy with Stable Perspectives

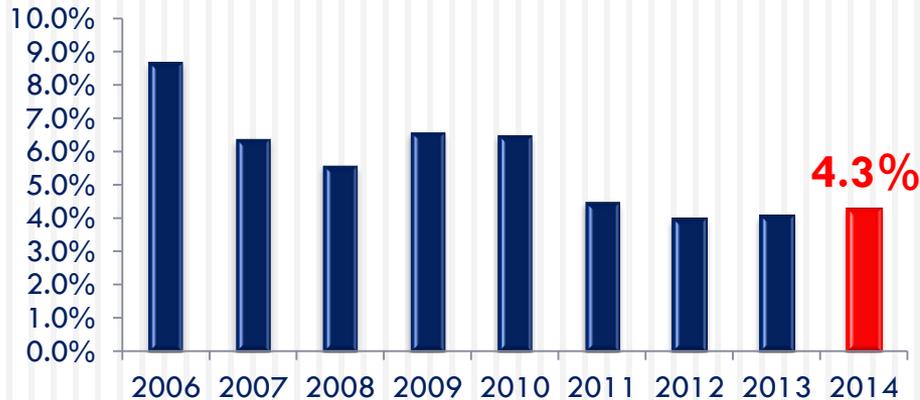
## GDP % Growth per Year



## Annual FDI Flows into Panama 2004-2013

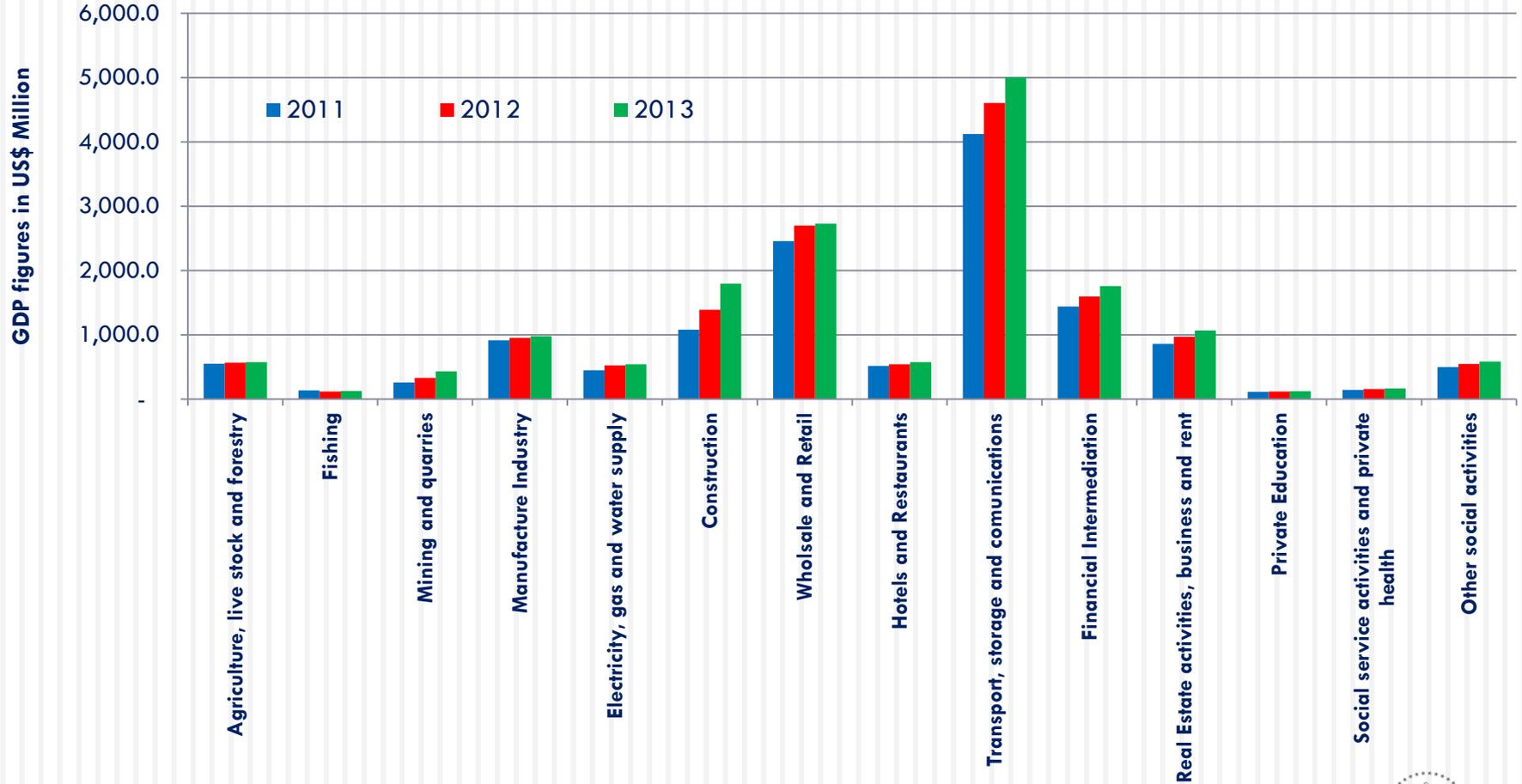


## Unemployment Rate



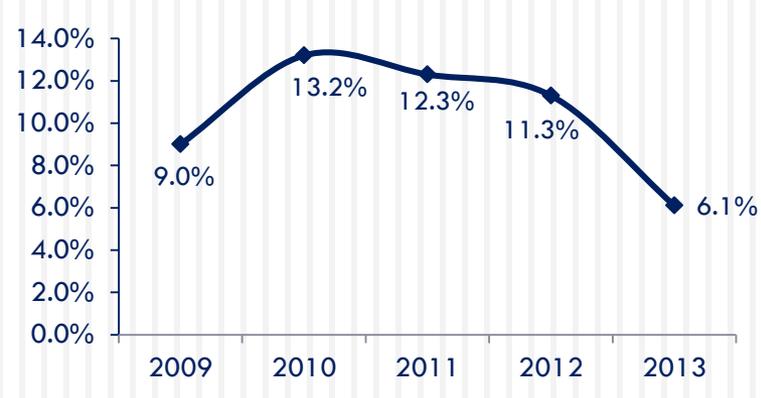
By mid 2014, FDI figures reached US\$ **2,575.4** million, which means **26%** more in comparison to last year inflows over the same period.

# Panama's GDP Structure per Sectors 2010-2013



# Logistics Sector in Panama

**% increase of logistic sector in Panama's GDP**

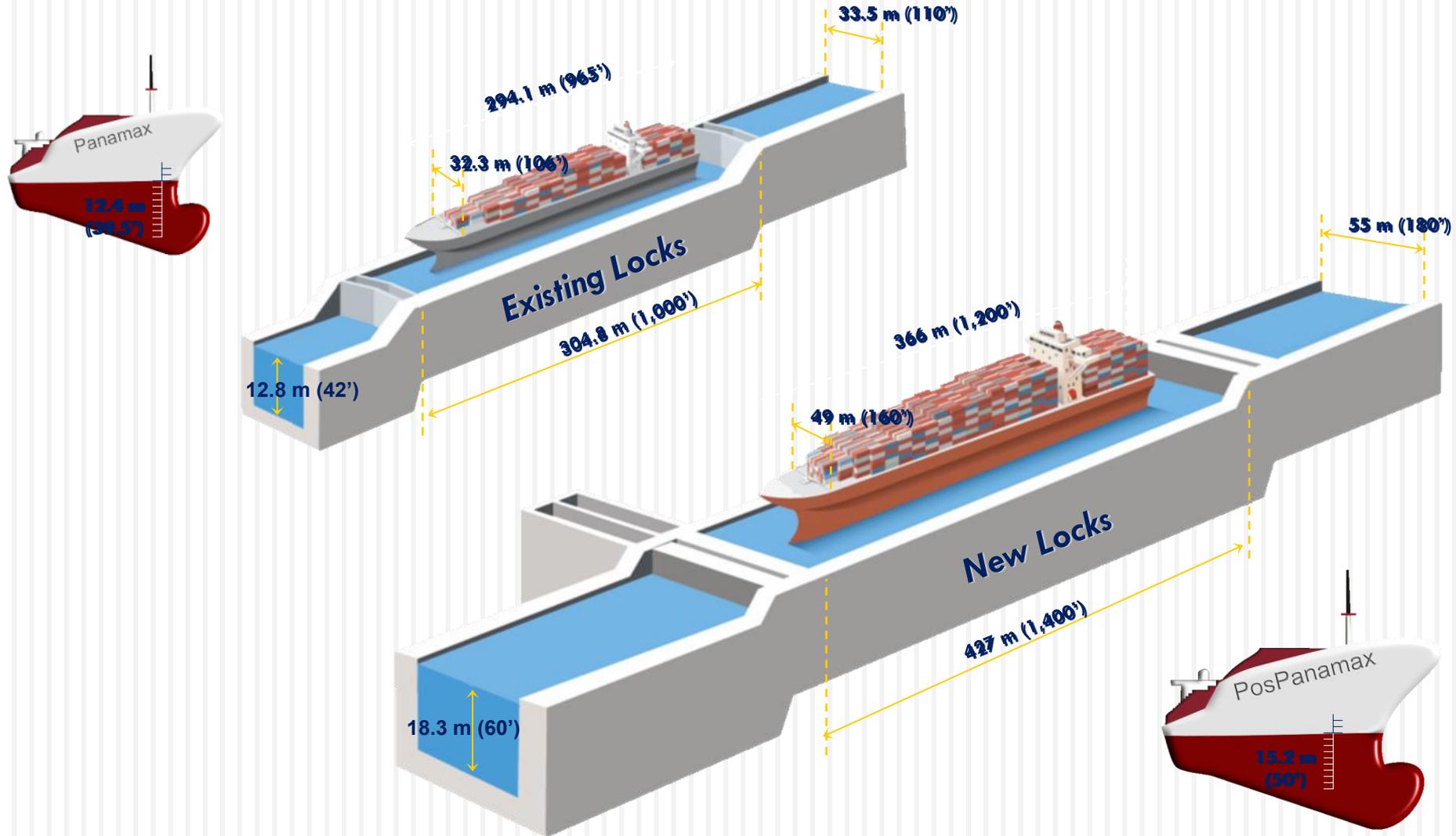


- The transportation and communications sector represents about 25% of GDP.
- Panama maritime ports move more than 6 million TEUs per year.
- In 2013 transit through Tocumen International reached 7.7 million passengers. This figure is expected to double once operations on the south terminal begin.
- The Free Zone law, The Panama Pacifico Zone, The Colon Free Zone and the Multinational Headquarters laws are the axes of the framework towards the promotion and attraction of FDI in this sector.



# Dimensions of Locks and Vessels

*Existing Locks Max Vessel size: 4,400 TEU's*



*New Locks Max Vessel size: 12,600 TEU's*

# Main Sea Trade Routes

POPULATION 2014 (In MM)	
Caribbean	36.8
Central America	43.1
South America	407.1
North America	471.6
<b>Total</b>	<b>958.6</b>



This is a major advantage for developing relay traffic as it provides the possibility of linkages between multiple services on both east-west, and north-south routes.



# Global Maritime Trade Volume Through The Panama Canal in %

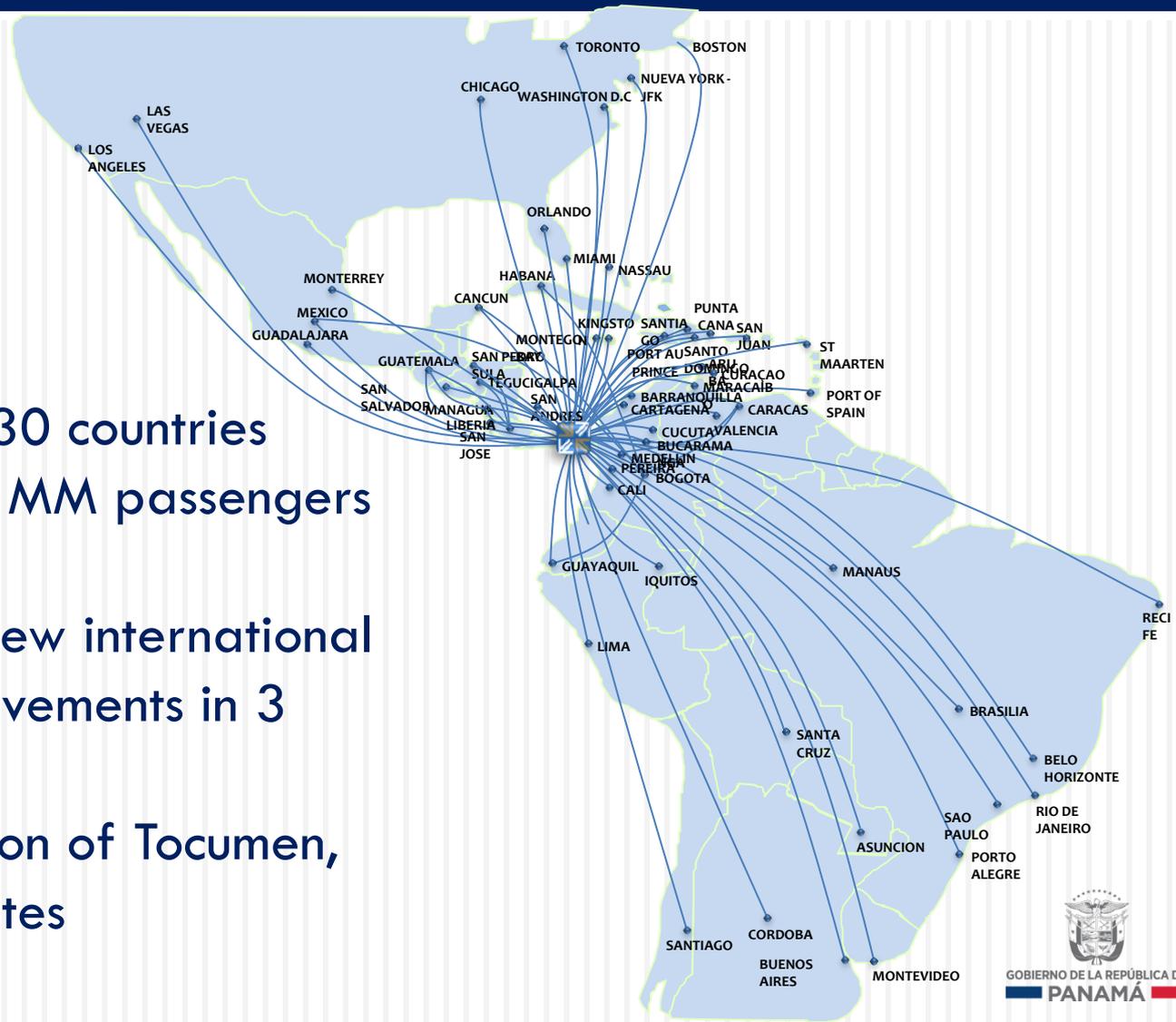
Merchandise Share	% of Global Maritime Trade
Containerized Cargo	4.7%
Grains	10.6%
Petroleum and Sub Products	1.3%
Coal	1.3%
Mineral and Metals	1.8%
Chemical	5.8%
<b>Panama Canal Share on Worldwide Trade</b>	<b>6%</b>

Source: Panama Canal Authority based on IHC data, October 2013



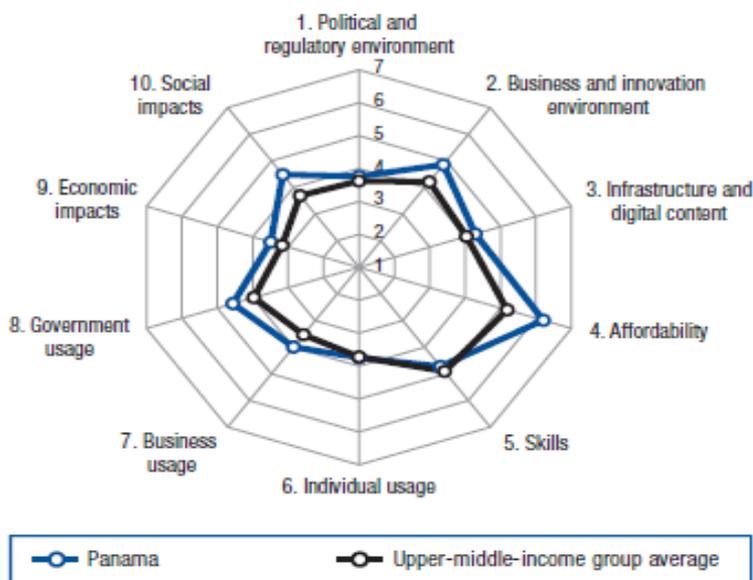
# Air Connectivity

- 69 destinations in 30 countries
- Transit of over 7.7 MM passengers in 2013
- Construction of 2 new international airports plus improvements in 3 existing airports
- \$779 MM expansion of Tocumen, adding 20 new gates



# Telecommunications Connectivity

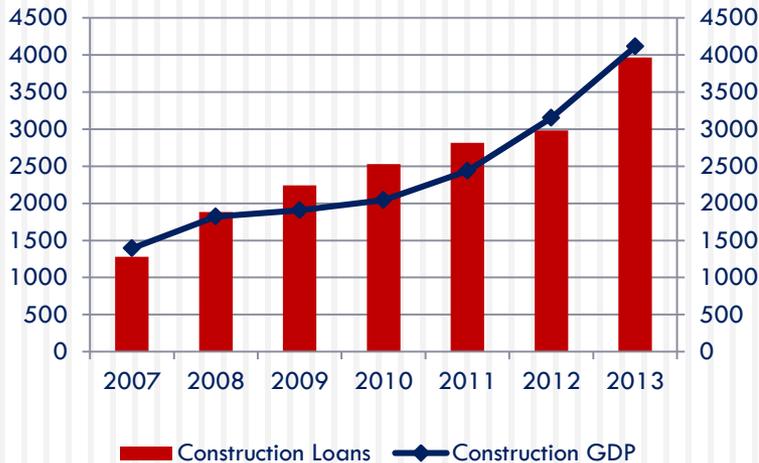
## Network Readiness Index 2014



Panama is ranked 43rd worldwide and 2nd in Latin America by the "Network Readiness Index" of the World Economic Forum 2014

# Construction

**Construction on GDP and Credit Loans by NBS. Data in US\$ Million. Years 2007-2013**

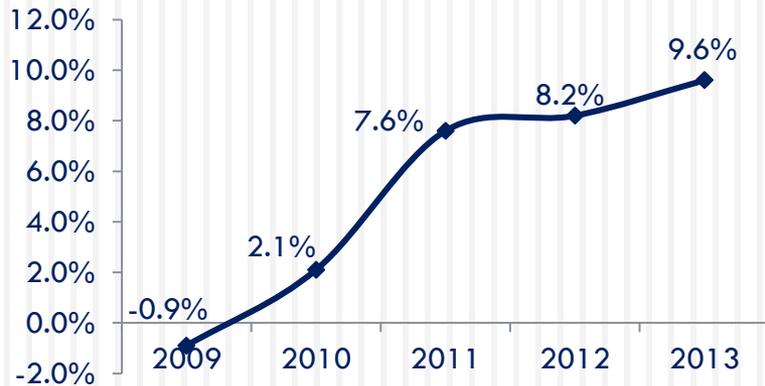


- In 2013 construction generated more than \$4.1 billion, accumulating 12% of GDP. This figure was 30% higher than 2012.
- A joint venture business model is very common in the construction sector.
- There is no restriction on the entry of foreign companies on this sector.
- Construction of lines 2 and 3 of the Panama Metro raises new opportunities for urban development in eastern and western areas of Panama City.
- The arrival of expats represents good option for real estate companies to rent or sell apartments and houses at high income areas such as Costa del Este, Panama Pacifico, among others.



# Financial Sector in Panama

Growth rate of Financial Intermediation. Years 2009-2013



- 76% of the Banking Center is comprised by foreign banks.
- Under the National Banking System, 52% of total assets belong to international private banks, 35% to Panamanian private banks and 13% to Official Banks.
- The average lending rates (on loans), have remained, on average, at about 10% in the period 1990-2012, falling below that level in recent years as a result of a global trend of lower rates.
- Deposits and loans keep showing a growing trend.



# Financial Sector in Panama



## International Banking System

[www.superbancos.gob.pa](http://www.superbancos.gob.pa)

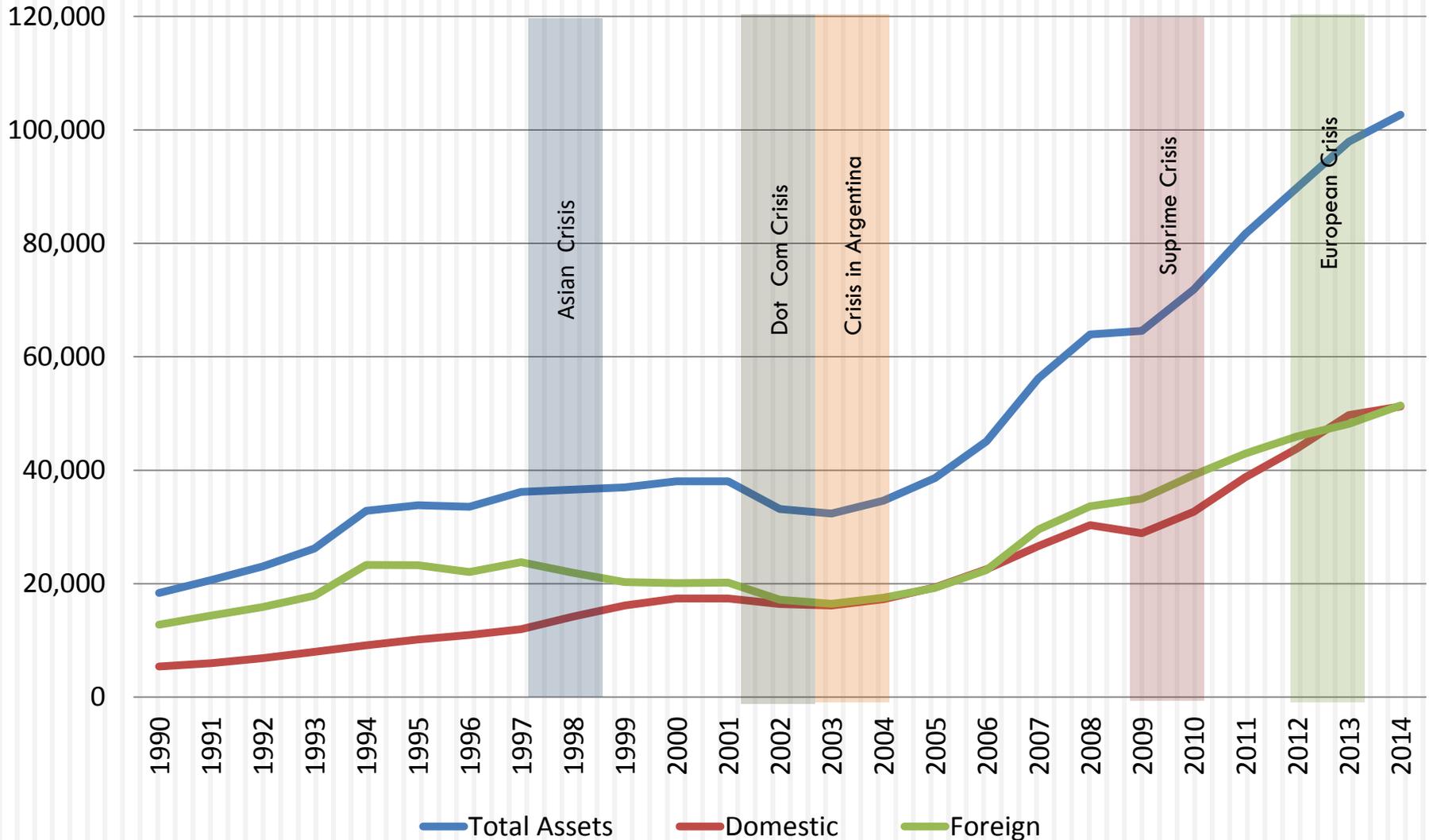
- No Central Bank
- Dollarized economy since 1904
- 90 banks (national and international)
- US\$ 101.5 billion in total assets in 2014

## Insurance Sector

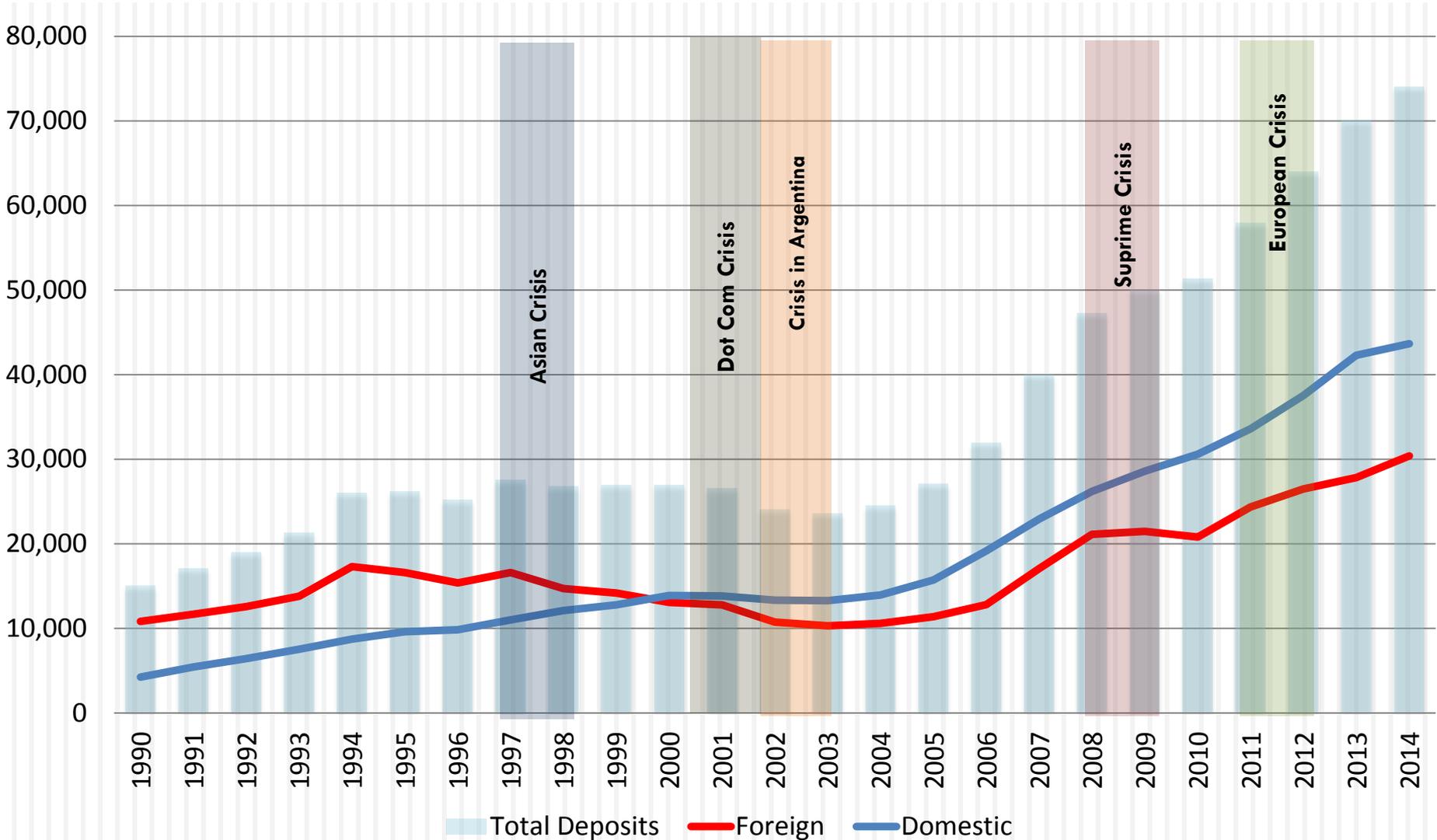
[www.superseguros.gob.pa](http://www.superseguros.gob.pa)

- By 2013, total premiums reached US\$ 1,315.9 million (13.5% more than 2012). Car and Health insurance are the major premiums in local market, gathering 1/3 of total premiums by 2013. There are 31 companies in this sector.

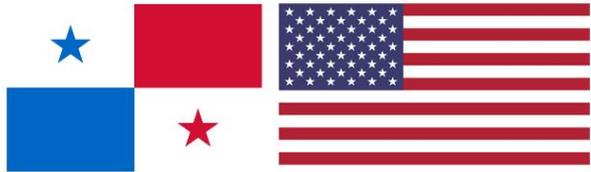
# IBC, Internal vs. External Assets



# IBC, Internal Vs. External Deposits



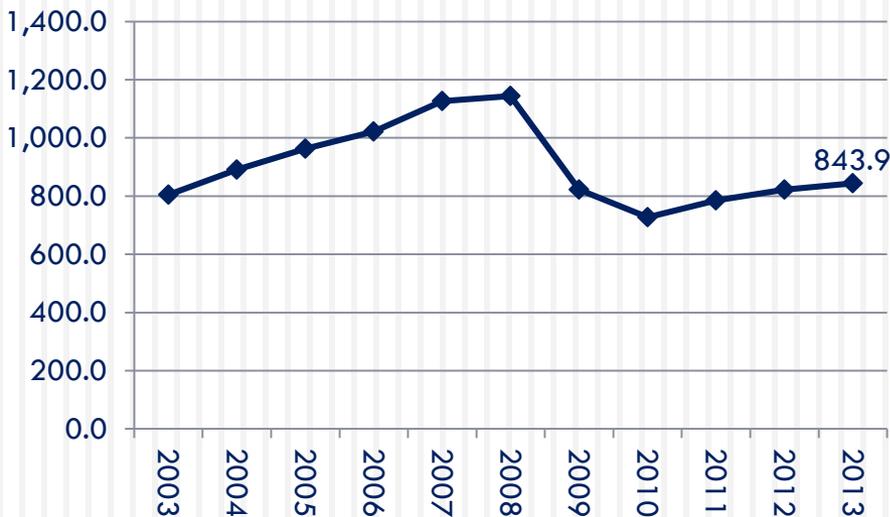
# TPA Benefits



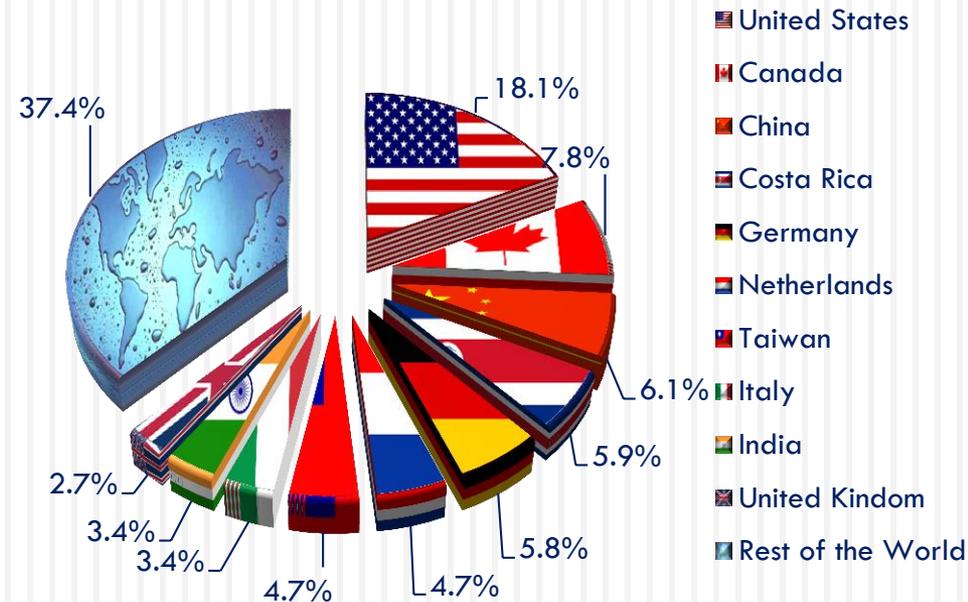
- Immediate and Progressive Tariff Rate Elimination
- Telecommunications Market opening
- Investor Protection
- Greater Protection of Copyright and IP
- Labor and Environmental Rights
- Equal conditions for Foreign Investors

# Panama Export Figures and Trade Partners

**Evolution of Panama's FOB Values for Exports in US\$ millions. Years 2003- 2013**



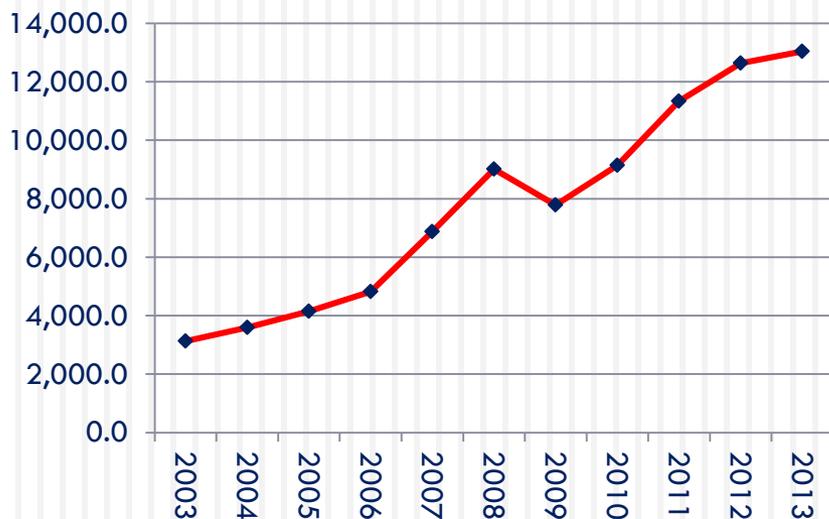
**Major Trade Export Partners by 2013**



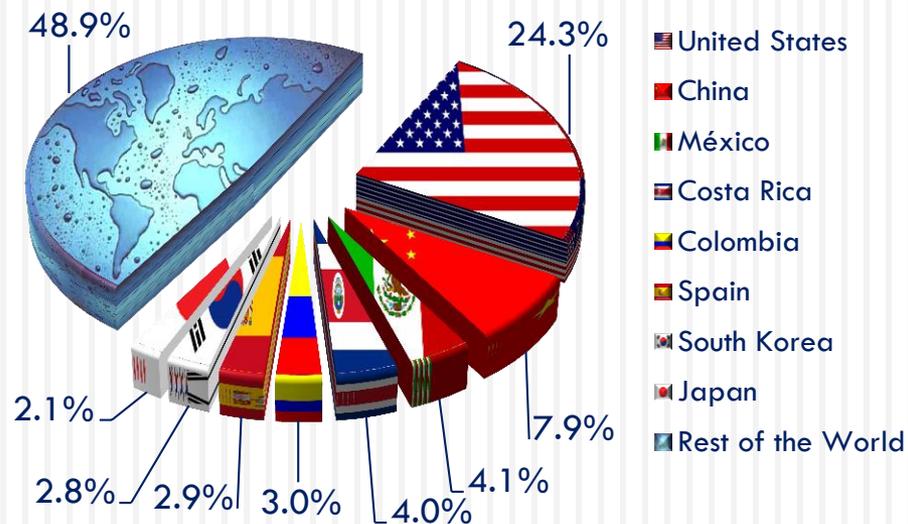
- United States has been historically Panama's main trading partner.
- Major national exports come from agricultural and agro industrial sector, which accounts for 45% of total exports in 2013
- Panama has signed FTA's with the following countries: United States of America, Canada, México, Colombia, Chile, Peru, Singapore, Taiwan, and the Central American countries.
- Special agreements are included with the EU and EFTA.

# Panama Import Figures and Trade Partners

**CIF Value on Imports by Panama.  
Years 2003-2013**



**Panama's major trade partners on Imports 2013**

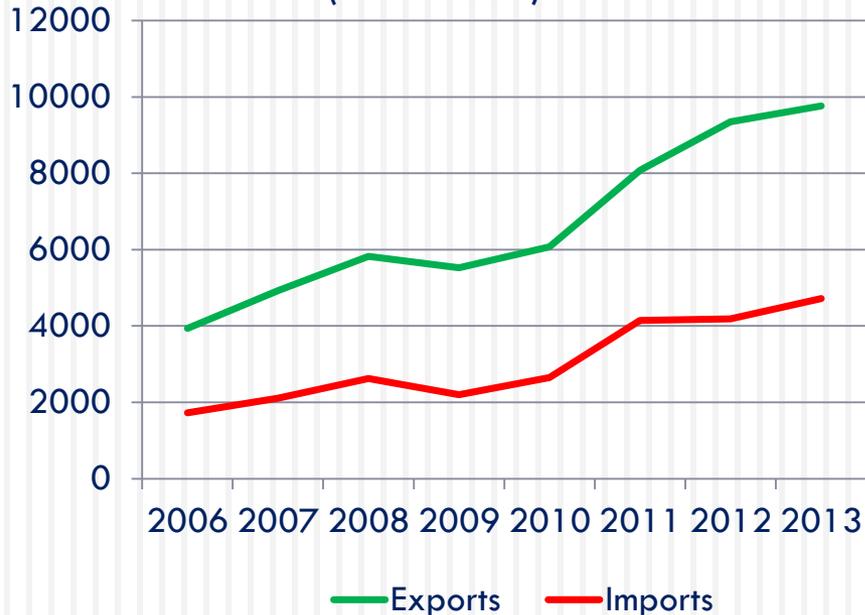


- The Colon Free Zone and Petroleum Free Zone represented 26% of total imports from the rest of the world in 2013.
- Imports have shown a growing trend over the past 3 years, mainly due to capital goods impact, public projects by the government and higher demand from logistics and communication companies.

# Panama's Services Figures

## Service Trade Trend 2006-2013

(In MM USD)



Service Exports	US\$ Million	% Share	% Growth vs 2012
Transport	4,802.4	49.1%	1.7%
Travels	3,316.2	33.9%	8.1%
Financial Serv.	566.7	5.8%	-16.2%
Comm. Serv.	327.1	3.3%	0.4%
Insurance Serv	275.5	2.8%	103.0%
Others (6)	478.9	4.9%	13.8%
<b>Total</b>	<b>9,766.8</b>	<b>100%</b>	<b>4.5%</b>

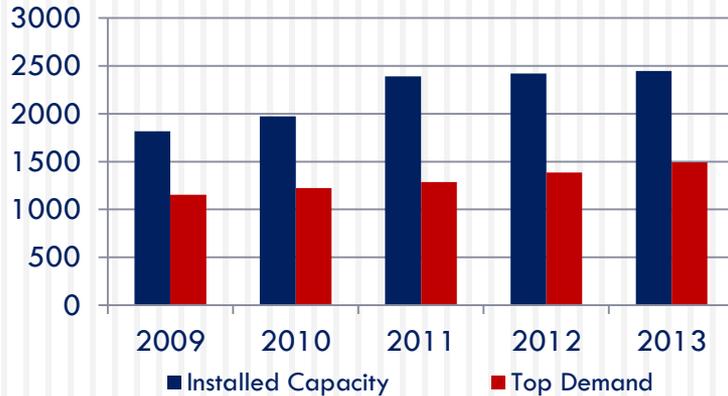
80% of the Panamanian economy is related to services

Service exports represent 92% of total exports, excluding The Colon Free Zone



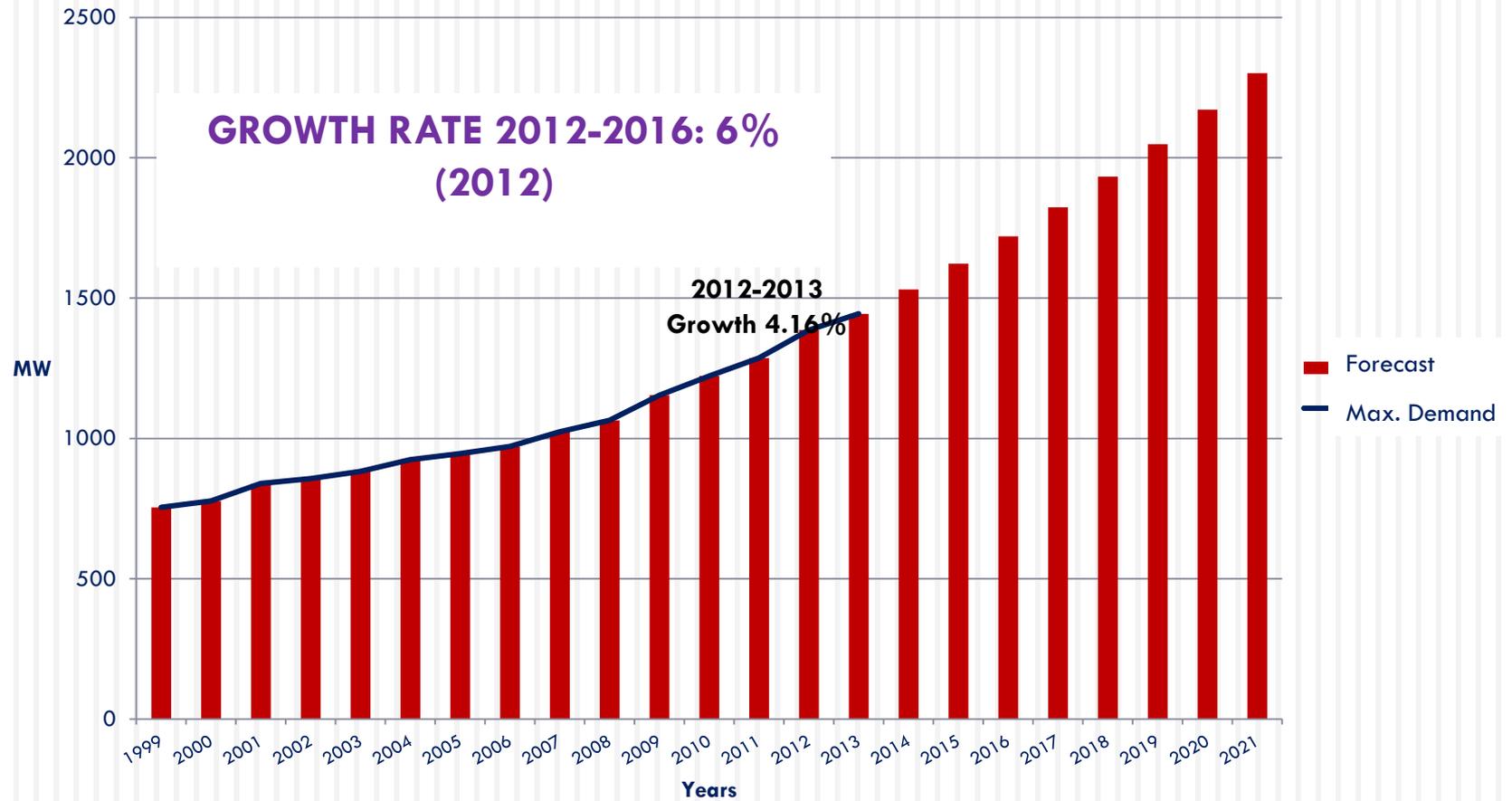
# Energy Sector

Installed Capacity vs Energy top demand in MW. Years 2009-2013



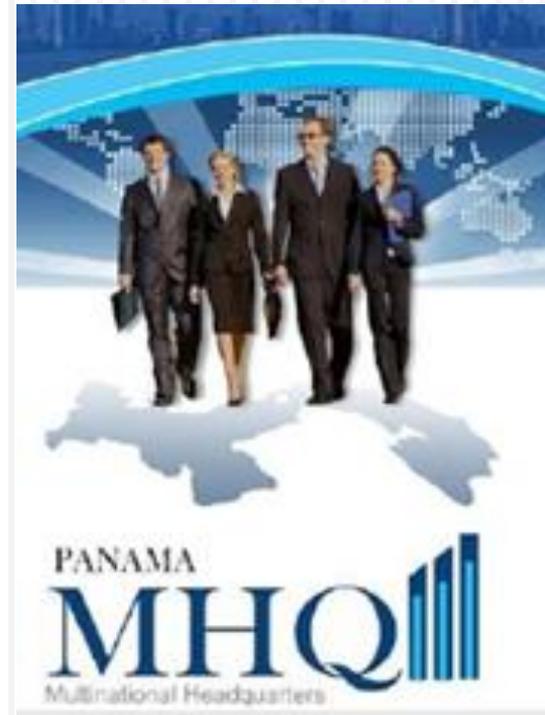
- Energy demand in Panama is estimated to have an annual growth rate of 7.5% per year until 2016 and 5.6% in the next 10 years
- New concessions are aimed at addressing future energy needs as well as the diversification of the energy matrix
- The current goal is to diversify the energy matrix, where 80% will be produced from renewables while the remaining 20% would be generated from fossil fuels.
- 17% of the energy produced is lost through the gaps in transmission lines and network absorption capacity. This puts a limit on the system's efficiency and productivity.

# Electricity Demand in Panama



# Multinational Headquarters Law

- Currently there are 106 companies established under the MHQ law in different sectors of the economy
- MHQ Companies must have at least 200 million in assets worldwide to apply as MHQ Company and get all the benefits.
- 28 MHQ companies come from the US.
- MHQ office at Ministry of Commerce and Industries is certified with ISO 9001.
- The MHQ office has its own one-stop-shop that offers migration services where companies can obtain their MHQ visa's.



# MHQ Main Benefits



## Fiscal Incentives

- Total Exemption on Income Taxes based in offshore operations.
- Tax scheme negotiation is possible between company and Panamanian State.
- Exemptions from sales tax for services rendered to related corporations abroad.



## Labor Incentives

- Panamanian labor code restrictions to hire expats does not apply under this law.
- MHQ labor force are not compelled to pay social security or income tax.
- MHQ permanent workers are exempt from import tax on household when they are moving for the first time.



## Migration Incentives

- Permanent and temporary visa availability, with several benefits.
- Family members are also included with visa Benefits (couple, sons, fathers, and child under legal custody)

# Allowed Activities Under MHQ Law

- Financial Management and Treasury Services
- Operations Management
- Logistics and/or Storage Components
- Technical Assistance
- Operations Support and R&D
- Business Group Accounting
- Planning, Design and Support of Products
- Consulting, Marketing and Advertising Activities
- E-Processes and Operation Consolidation



# Panama's Free Zone Regime

Law 32 April 5th, 2011



## Categories

- Manufacturing
- Assembly
- Processing enterprises of finished or semi elaborated goods
- Service Export enterprise
- Environmental Services
- High Education Centers
- Scientific research centers
- Logistic Services
- Health Services
- Companies related to Aviation Services and Airports

## Incentives

- Exemption from export taxes and duties on all goods or services required for its operations.
- Exemption from income tax on lease and subleases for Free Trade Zones promoters.
- Tax Exemption for capital goods and properties.
- Exemption from income tax to storage services whose impact is measurable abroad.



# Conclusions

- Beyond market size, Panama's geostrategic location has historically provided an influence on a regional and global level.
- Over the last 10 years growth has been remarkable compared to other countries in Latin America. Currently, policies must be geared towards improvement on productivity and on the labor force on key growing sectors. This must be accompanied by a responsible fiscal policy.
- Along the way, there are key issues that need to be addressed, such as developing Value Added Logistic Services towards the logistic cluster and improvements on infrastructure.



# Thank You!



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