General Overview on Panama’s Economy and Investment Climate
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

- GDP Per Cápita: $7,600
- Total GDP: $21 BILLION
- Fewer than 10
- MHQ: 2%
- Annual Industrial Prod. Growth: $4.7 BILLION
- Exports: $6.4 BILLION
- Imports: $500 MILLION
- Panama Canal Revenues: 37% LIVE BELOW
- Poverty Rate: 550,026 ANNUAL TOURISTS
- Tourism: 550,026 ANNUAL TOURISTS

2013

- GDP Per Cápita: $15,300
- Total GDP: $51.26 BILLION
- More than 100
- MHQ: $17.97 BILLION (2012)
- Exports: $22.95 BILLION
- Imports: $1.85 BILLION
- Panama Canal Revenues: 27.6% LIVE BELOW
- Poverty Rate: 2.08 MILLION
- Tourism: 2012 Panama was voted No1 tourist destination for 2012 in several global publications including New York Times

- The standard of living in Panama has increased over the past 14 years
- The development of the logistics sector and FDI growth over the past years has improved key economic sectors in Panamá.
- A friendly legal framework for investors including attractive tax incentives have led Panama to became a center for MHQ in LAC
- Panama is undergoing robust construction initiatives and manufacture industries with an average growth between 4 to 10% over the last 10 years
- Panama’s exports have grown 3 fold since 1999 demonstrating the growth of industry and service
- A high demand of foreign products and consumer spending, luxury goods, construction materials, automobiles and more.
- Currently 90% of the world’s ships can pass through the Canal, providing high revenues from ship transit
- Several social programs are running with a common purpose to reduce general poverty in Panama. Results are shown over the last decade.
- In 2012 Panama was voted No1 tourist destination for 2012 in several global publications including New York Times

ANNUAL TOURISTS

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

Net Debt vs. Net Debt/GDP Ratio
(In MM, USD)

Debt Composition

- External Debt (78.3%)
- Local Financing (18.8%)
- Other Internal Financing (2.9%)
Favorable Macroeconomic Environment

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panama</td>
<td>6.7</td>
</tr>
<tr>
<td>Bolivia</td>
<td></td>
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<tr>
<td>R. Dominicana</td>
<td></td>
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<tr>
<td>Nicaragua</td>
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<tr>
<td>Colombia</td>
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<tr>
<td>Ecuador</td>
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<td>Peru</td>
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<td>Paraguay</td>
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<tr>
<td>Guyana</td>
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<tr>
<td>Suriname</td>
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<tr>
<td>Costa Rica</td>
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</table>

Evolution of GDP per capita of Panama. 1999-2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Figures in USD</th>
</tr>
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<tbody>
<tr>
<td>2013</td>
<td>11,037</td>
</tr>
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<td>2012</td>
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<td>1999</td>
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</tbody>
</table>
**A Country Open for Business**

**Ranking Doing Business*2009-2014**

Variation in the number of positions

<table>
<thead>
<tr>
<th>Country</th>
<th>Global Ranking 2013</th>
<th>Global Ranking 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>34</td>
<td>34</td>
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<td>Peru</td>
<td>39</td>
<td>42</td>
</tr>
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<td>Colombia</td>
<td>42</td>
<td>43</td>
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<td>Mexico</td>
<td>51</td>
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<td>Panama</td>
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<td>Guatemala</td>
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<td>Uruguay</td>
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<td>Costa Rica</td>
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<td>Belice</td>
<td>104</td>
<td>106</td>
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### Investment Grade

<table>
<thead>
<tr>
<th>Rating Agency</th>
<th>Term</th>
<th>Rating</th>
<th>Date</th>
<th>Perspective</th>
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<tbody>
<tr>
<td><strong>STANDARD &amp; POOR’S</strong></td>
<td>Long Term; Foreign Currency</td>
<td>BBB</td>
<td>July 2, 2012</td>
<td>Stable</td>
</tr>
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<td></td>
<td>Short-Term Foreign Currency</td>
<td>A-2</td>
<td>July 2, 2012</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Long-Term Local Currency</td>
<td>BBB</td>
<td>July 2, 2012</td>
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<td></td>
<td>Short Term Local Currency</td>
<td>A-2</td>
<td>July 2, 2012</td>
<td></td>
</tr>
<tr>
<td><strong>Fitch Ratings</strong></td>
<td>Long Term; Foreign Currency</td>
<td>BBB</td>
<td>March 7, 2014</td>
<td>Stable</td>
</tr>
<tr>
<td></td>
<td>Long-Term Local Currency</td>
<td>BBB</td>
<td>March 7, 2014</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Short Term Local Currency</td>
<td>F3</td>
<td>March 7, 2014</td>
<td></td>
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<tr>
<td><strong>Moody’s</strong></td>
<td>Long Term; Foreign Currency</td>
<td>Baa2</td>
<td>Oct 31, 2012</td>
<td>Stable</td>
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<tr>
<td></td>
<td>Long-Term Local Currency</td>
<td>Baa3</td>
<td>Jun 9, 2010</td>
<td></td>
</tr>
</tbody>
</table>

- 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

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

GDP figures in US$ Million

Agriculture, livestock and forestry
Fishing
Mineral and quarrying
Manufacturing Industry
Electricity, gas and water supply
Construction
Wholesale and Retail
Hotels and Restaurants
Transport, Storage and Communications
Financial Intermediation
Real Estate, business and rent
Private Education
Social service activities and private health
Other social activities
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

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.

<table>
<thead>
<tr>
<th>Region</th>
<th>Population (in MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caribbean</td>
<td>36.8</td>
</tr>
<tr>
<td>Central America</td>
<td>43.1</td>
</tr>
<tr>
<td>South America</td>
<td>407.1</td>
</tr>
<tr>
<td>North America</td>
<td>471.6</td>
</tr>
<tr>
<td>Total</td>
<td>958.6</td>
</tr>
</tbody>
</table>
# Global Maritime Trade Volume Through The Panama Canal in %

<table>
<thead>
<tr>
<th>Merchandise Share</th>
<th>% of Global Maritime Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Containerized Cargo</td>
<td>4.7%</td>
</tr>
<tr>
<td>Grains</td>
<td>10.6%</td>
</tr>
<tr>
<td>Petroleum and Sub Products</td>
<td>1.3%</td>
</tr>
<tr>
<td>Coal</td>
<td>1.3%</td>
</tr>
<tr>
<td>Mineral and Metals</td>
<td>1.8%</td>
</tr>
<tr>
<td>Chemical</td>
<td>5.8%</td>
</tr>
<tr>
<td><strong>Panama Canal Share on Worldwide Trade</strong></td>
<td><strong>6%</strong></td>
</tr>
</tbody>
</table>

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

- 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.
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

• 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

• 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.
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

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.
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)

80% of the Panamanian economy is related to services
Service exports represent 92% of total exports, excluding The Colon Free Zone
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

GROWTH RATE 2012-2016: 6% (2012)

Forecast
Max. Demand
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.
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!

PROINVEX PANAMA
AGENCIA DE ATRACCIÓN DE INVERSIONES Y PROMOCIÓN DE EXPORTACIONES

EMBASSY of PANAMA
TO THE UNITED STATES OF AMERICA

Commercial Inquiries: commercial@embassyofpanama.org