

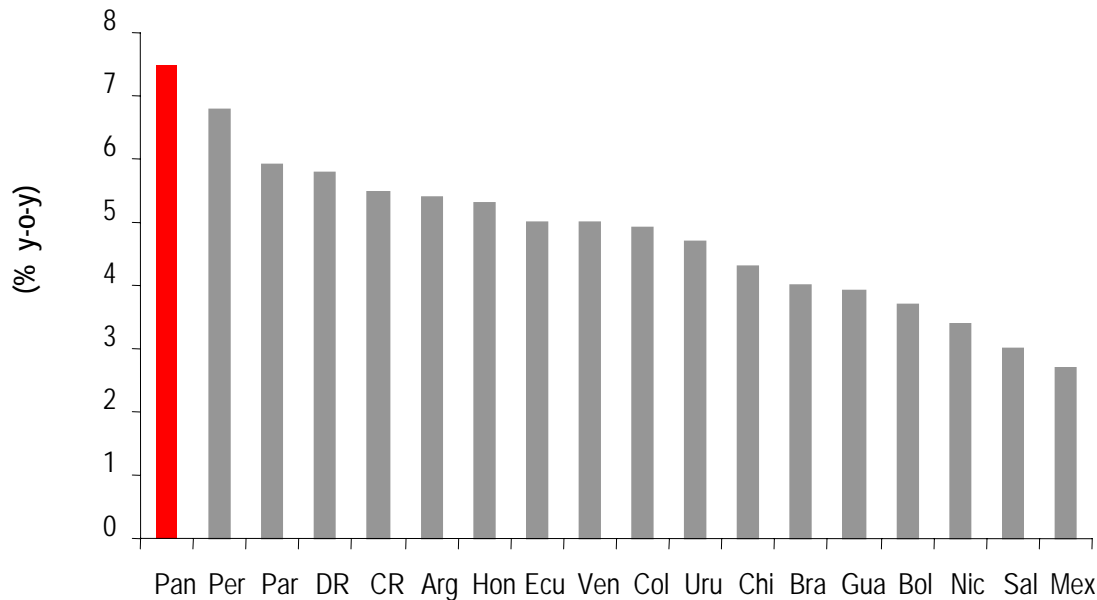
Panama's Economic Outlook

March 2010

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Exceptional dynamism in recent years

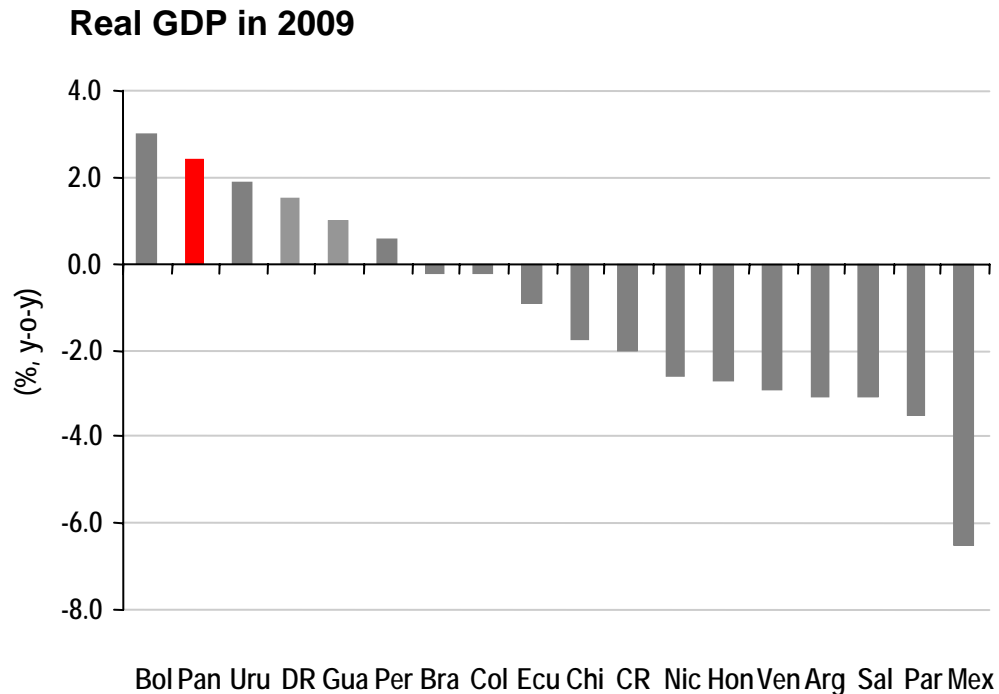
Average GDP growth rate, 2002-2008



Source: HSBC

- Most of the Latin American economies experienced high growth rates in the years leading up to the global financial and economic crisis due mainly to favorable terms of trade from rising commodity prices.
- Panama was not the exception, although its main engines of growth were the buoyant construction and financial industries, as well as dynamic services' exports.

Panama: one of the few stars during 2009

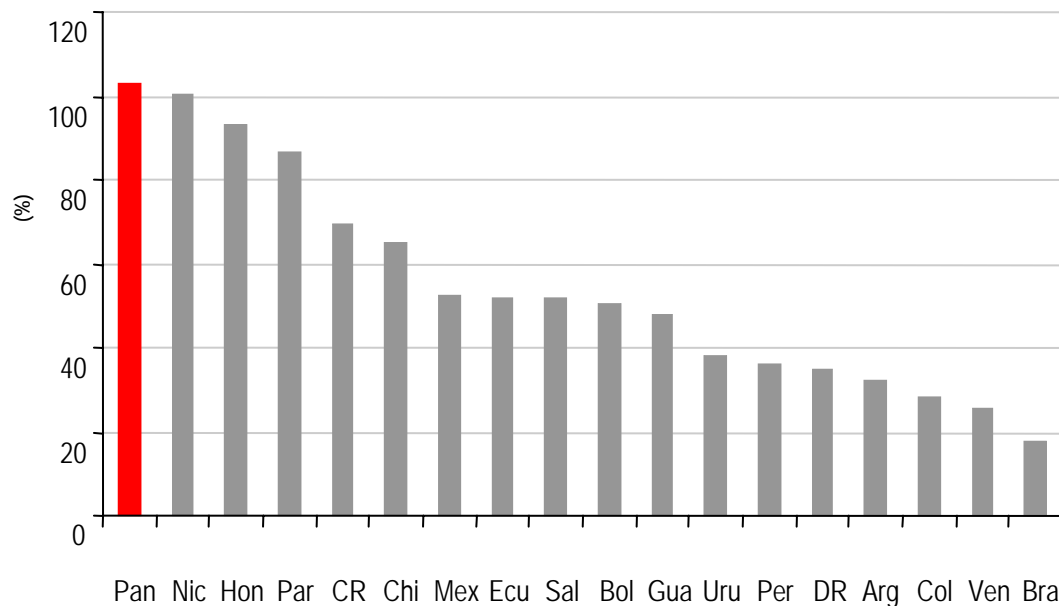


Source: HSBC

- Panama remains one of the strongest economies in the region, and its economic resilience during the global economic downturn was notable.
- Though the Panamanian economy has decelerated considerably, it never entered into recession. Real GDP grew 2.4% in 2009.

High degree of openness, with resilient exports

Openness: (Exports + imports) / GDP

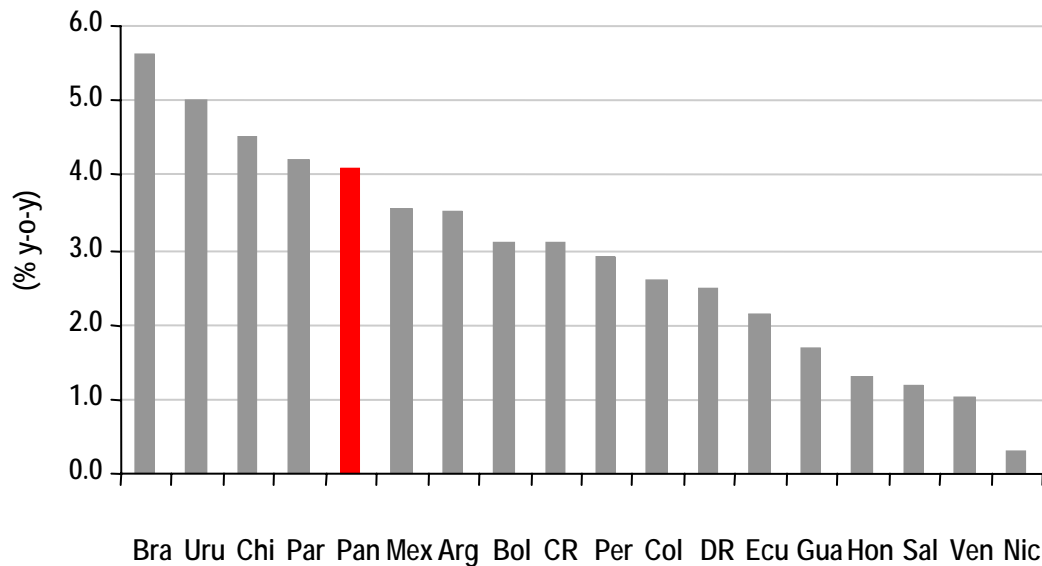


Source: HSBC

- Though Panama is the most open economy in the region, its external sector remained relatively dynamic during the global downturn.
- One explanation of such resilience is Panama's diversified export base.
- For example, only 20% of total exports go to the US, versus more than 50% for El Salvador and Costa Rica.

A brighter outlook for 2010

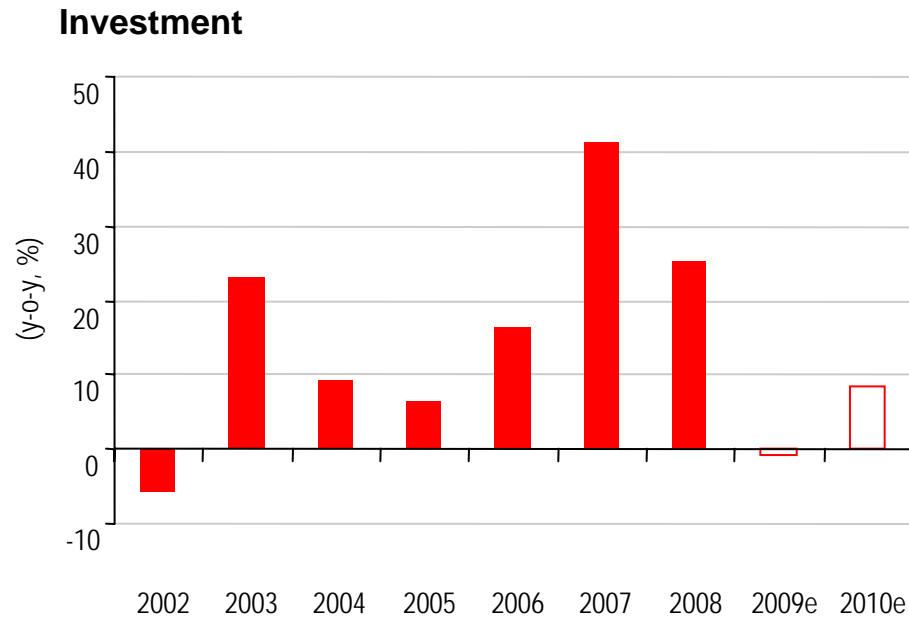
Expected real GDP growth in 2010



Source: HSBC

- All Latin American economies should post positive growth rates in 2010 with a weighted average of 4.0%.
- The outlook for Panama looks brighter, as the government will start to execute its ambitious five-year investment plan that should sustain growth in the medium term.
- In addition, construction of the main part of the third set of locks of the Panama Canal will be put in motion this year. This project is expected to add 1% to real GDP annually.

Panama: investment-led growth in 2010

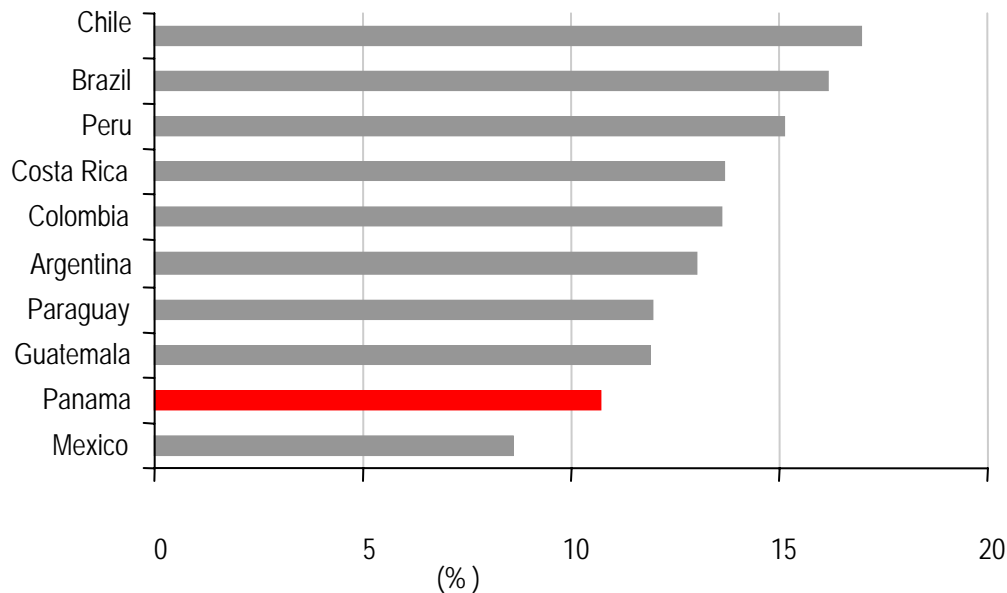


Source: HSBC

- The investment plan could reach 7.5% of GDP annually for the next five years, we estimate.
- The plan would help the construction industry, although growth would not be as high as that in previous years.
- Nevertheless, construction should be more diversified and no longer concentrated in residential building.

Financing the five-year infrastructure program

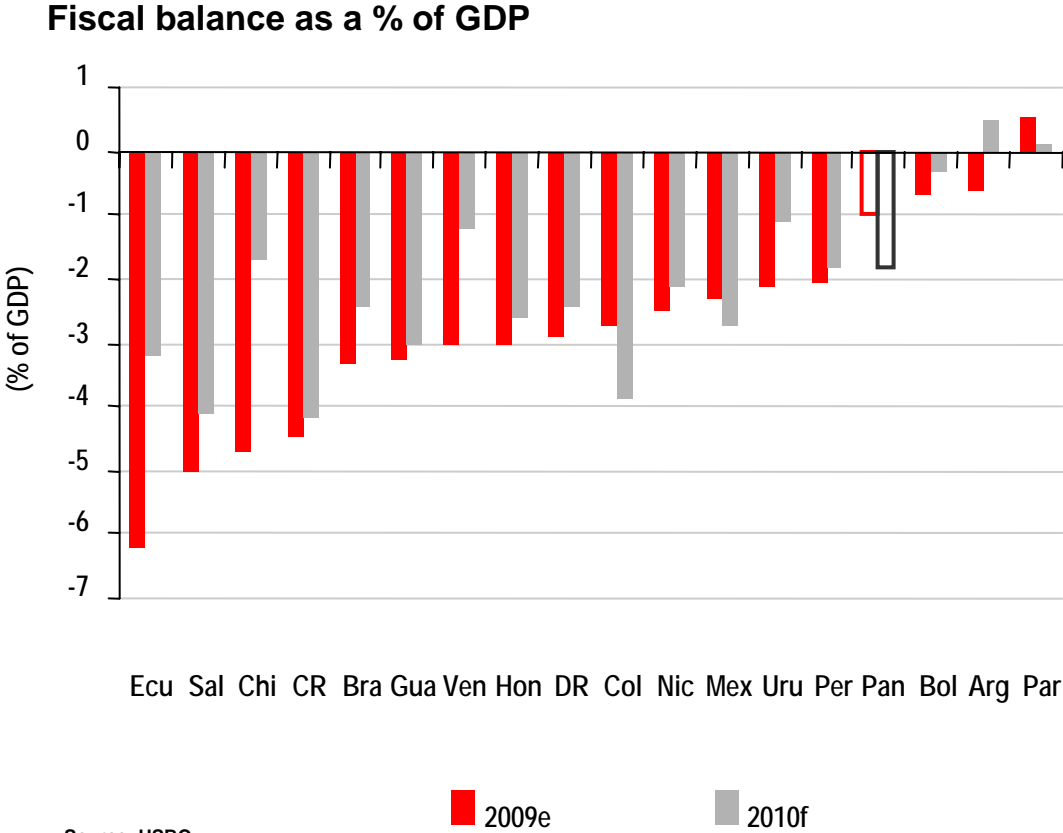
Tax revenues as a % of GDP



Source: HSBC

- The investment plan will be financed mainly via sale of government assets and additional revenues derived from fiscal reforms.
- The reforms will help broaden the tax base in the short term and increase resources to finance the investment plan.
- The tax burden is one of the lowest in the region.

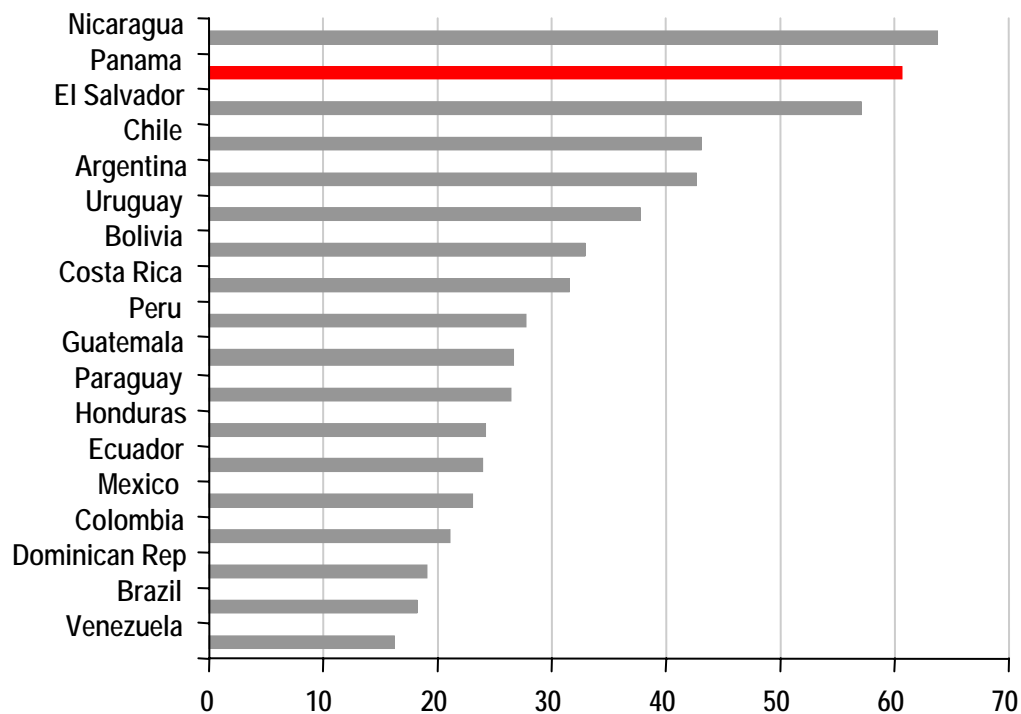
Better-than-expected fiscal position in 2009



- The fiscal position in Panama proved to be one of the most resilient in the global crisis in Latin America, registering a moderate fiscal deficit of 1.0% in 2009.
- The prudent increase in expenditures and better-than-expected revenues explained the fiscal result.

High growth rates will maintain debt-to-GDP ratio stable

External debt as a percentage of GDP



Source: HSBC

- Total external debt as a percentage of GDP averaged 50% in the last five years. This proportion is high, compared to other Latin American countries.
- Expansion of the Panama Canal and execution of the investment plan should not put pressure on the external debt position.
- We expect the debt-to-GDP ratio to remain stable, as GDP growth perspectives are favorable for the coming years.

Chasing investment grade

País	Moody's	S&P	Fitch	Average
Chile	A1	A+	A	A+
México	Baa1	BBB	BBB	BBB
Brasil	Baa3	BBB-	BBB-	BBB-
Perú	Baa3	BBB-	BBB-	BBB-
Colombia	Ba1	BBB-	BB+	BB+
Panamá	Ba1	BB+	BB+	BB+
Costa Rica	Ba1	BB	BB	BB
El Salvador	Ba1	BB	BB	BB
Guatemala	Ba2	BB	BB+	BB
Uruguay	Ba3	BB	BB-	BB-
Venezuela	B2	BB-	B+	B+
Paraguay	B3	B	NR	B+
Honduras	B2	B	NR	B
Rep. Dominicana	B2	B	B	B
Bolivia	B2	B-	B	B
Argentina	B3	B-	B-	B-
Nicaragua	Caa1	NR	NR	Caa1
Ecuador	Caa3	CCC+	B-	CCC+

Source: Bloomberg

- Contrary to other countries in the region that experienced credit rating downgrades during the economic crisis, the rating agencies placed Panama's key ratings on review for upgrade.
- The current administration set the goal of obtaining investment-grade status over the course of the next two years.
- In our opinion, the country will get investment grade sooner rather than later.

Risks and challenges:

- **The key challenge facing the government is consolidating an improved fiscal position over the medium to long term, while executing an ambitious investment program.**
- **Panama may become over-dependent on Canal revenue streams in the future, making fiscal administration a vulnerable issue.**
- **The five-year investment plan could face difficulties in its execution, falling short of its objectives.**
- **Panama is on the OECD “grey” list, as it is considered a tax haven; staying on this list could jeopardize ratification of a free trade agreement with the US.**

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