



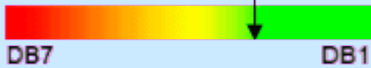
Decide with Confidence

# PANAMA

Region : The Americas

Edition : October 2013

## D&B Country Risk Indicator

 <p style="font-size: 2em; font-weight: bold; margin-top: 10px;">DB3c</p>	<p><b>This "DB" Rating Indicates:</b></p> <p><b>Slight risk</b></p> <p>Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.</p>	<p><b>Trend</b></p> <p><b>Stable</b></p> <p>The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred</p>
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The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	3.5m
<b>Surface area (sq km):</b>	75,520
<b>Capital:</b>	Panama City
<b>Timezone:</b>	GMT -05:00
<b>Official language:</b>	Spanish
<b>Head of state:</b>	President Ricardo Martinelli
<b>GDP (USD):</b>	24.3bn
<b>GDP per capita (USD):</b>	7,037
<b>Life expectancy (years):</b>	75
<b>Literacy (% of adult pop.):</b>	91.9

### Country Overview:

Panama's position at the crossroads of the North and South American continents and the Pacific and Atlantic Oceans has shaped its development as a major transshipment hub for global trade. The Panama Canal, opened in 1914, has provided the cornerstone for the development of prosperous maritime and trade-related industries, while dollarisation of the economy has underpinned macroeconomic stability and supported the establishment of a dynamic offshore banking sector.

Former president Martin Torrijos' bold leadership and visionary plans for an enlargement of the Panama Canal as well as his success in pushing ahead other fiscal and business-friendly reforms underpinned an investment boom prior to the economic crisis of 2008, enabling strong economic growth and enhanced competitiveness. While the government of President Ricardo Martinelli, which was sworn in on 1 June 2009, is continuing with a business friendly agenda, a tougher economic environment has thrown up considerable challenges in terms of policy.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	LC
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	LC
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D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

<b>Usual Terms:</b>	30-90 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	0-1 month
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The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

### Trade & Commercial Environment

Credit risk remains relatively low and continues to be supported by dollarisation, which eliminates exposure to currency risk and obviates the use of FX reserves to stabilise the exchange rate. The trade and commercial situation should stay broadly positive in the coming quarters as economic growth increases. Meanwhile, the diversified nature of commercial activity in Panama, as well as the country's recent transformation into a sophisticated service-oriented economy (in contrast to many countries in the region) will benefit the commercial climate. Elsewhere, the new incentives regime for solar energy projects is expected to generate significant investment in the sector, diversifying energy sources and helping to avert future energy crises.

### Export Credit Agencies

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	ST cover available
<b>ECGD</b>	Full cover available
<b>Euler Hermes UK</b>	Full ST cover available

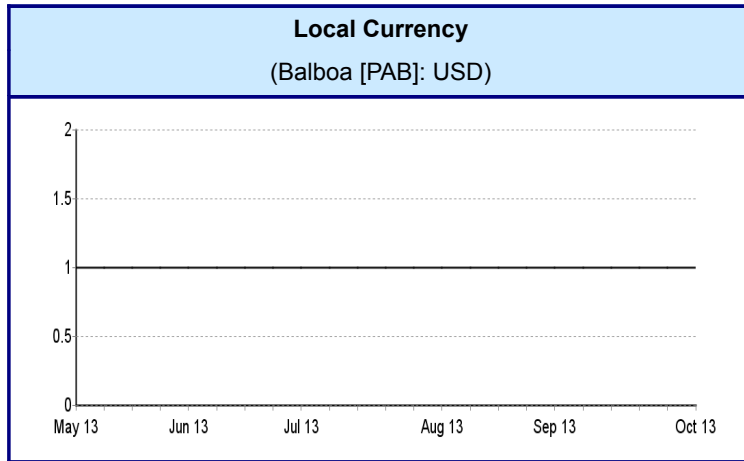
### Economic Indicators

	2010	2011	2012	2013f	2014f
<b>Real GDP growth, %</b>	7.5	10.8	10.7	8.5	7.5
<b>Inflation, annual ave, %</b>	3.5	5.9	5.5	5.7	5.6
<b>Govt balance, % GDP</b>	-1.8	-2.3	-2.1	-2.8	-2.7
<b>External debt, % GDP</b>	40.4	38.6	33.1	30.9	28.5
<b>C/A balance, % GDP</b>	-10.2	-12.2	-9.0	-8.9	-8.7

Note: 2010 external debt data are estimated

### Currency Information

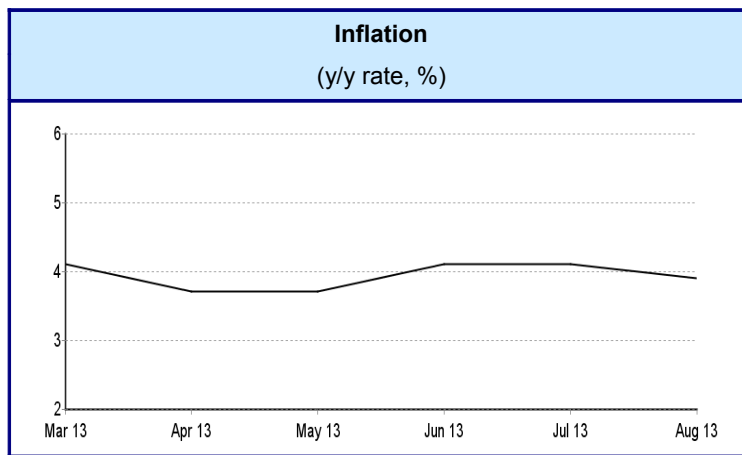
<b>Exchange Rates</b>	
(London, 09 Oct 13)	
EUR	1.3517
GBP	1.5931
JPY*	1.0289
USD	1.0
*(x 100)	



**Local Currency**  
(Balboa [PAB]: USD)

	May 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13
<b>Week 1</b>	1.000	1.000	1.000	1.000	1.000	1.000
<b>Week 2</b>	1.000	1.000	1.000	1.000	1.000	
<b>Week 3</b>	1.000	1.000	1.000	1.000	1.000	
<b>Week 4</b>	1.000	1.000	1.000	1.000	1.000	
<b>Week 5</b>			1.000		1.000	

## Inflation



**Data Table**

Mar 13	Apr 13	May 13	Jun 13	Jul 13	Aug 13
4.1	3.7	3.7	4.1	4.1	3.9

## Risk Factor

The short-term outlook for Panama's risk environment is broadly stable against a background of healthy economic growth. However, downside risks remain high. Despite external headwinds, the economy performed solidly in H1, expanding at an annualised rate of 7.3%, while recent data suggest that economic activity was similarly strong in Q3. Economic growth has been supported by vigorous domestic demand (underpinned by increased investment spending and robust household consumption), which has offset weakness in the external sector, a trend that is likely to be maintained in the coming quarters. Indeed, strong employment and real wage growth will help to sustain consumer spending on both durable and non-durable goods. This, coupled with higher levels of expenditure on public investment and increased private investment (especially in the hydrocarbons sector thanks to recent law amendments that have made exploration and exploitation more attractive) will keep the GDP growth rate buoyant.

However, key activities (mostly) in the outwardly-oriented services sector, such as the Panama Canal operations, ports and logistics, and re-exports from the Colon Free-Trade Zone (CFZ), are expected to remain under pressure in the near term due to both external and domestic factors, constraining growth prospects. Despite an agreement to settle USD1.1bn debt, the CFZ' companies have not yet received any payment from their Venezuelan clients, while the tariff dispute with Colombia is still unresolved, notwithstanding the recent signing of a bilateral free-trade agreement. In addition to the subdued prospects for the growth of global trade, Panama Canal and port traffic will be adversely affected by the delay in opening the expanded canal (currently expected in mid-2015), which has caused some shippers (including the Denmark-based Maersk Lines) to use alternative routes, such as the Suez Canal that can accommodate bigger ships; industrial action and violent protests in the Colon province, which effectively paralysed economic activity twice in 2012 and caused significant losses, also contributed to the shippers' decision.

Meanwhile, political developments are a source of growing concern and could lead to a deterioration in the risk outlook. In particular, the murder of an activist of the main opposition Democratic Revolutionary Party (PRD), allegedly by a PRD deputy, has again revived concerns regarding links between politicians and organised crime, and further strained the political climate. The incident that caused major turmoil for the problem-plagued PRD is expected to boost the incumbent Democratic Change party's already-strong chances of winning the general election in May 2014, despite escalating tension between President Ricardo Martinelli's government and trade unions.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

#### Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

#### Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

#### Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

#### F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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