



Republic of Panama Fiscal Performance First Quarter 2016

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GOBIERNO DE LA REPÚBLICA DE
PANAMÁ



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Macroeconomic Overview

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1. Macroeconomic Overview

Gross Domestic Product

Inflation & Society

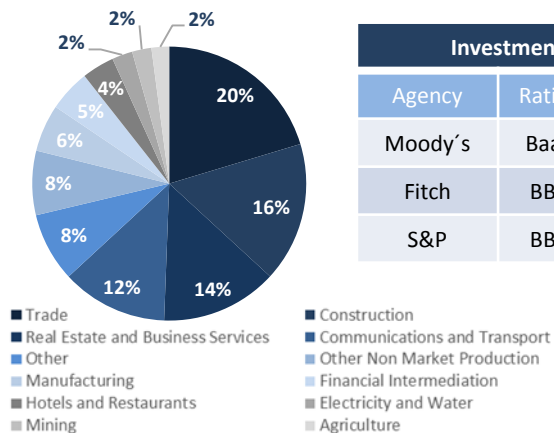
Foreign Direct Investment

Competitiveness

We remain a leader in Latin America in GDP growth, with a well-diversified economy...

No single sector accounts for more than 20% of GDP...

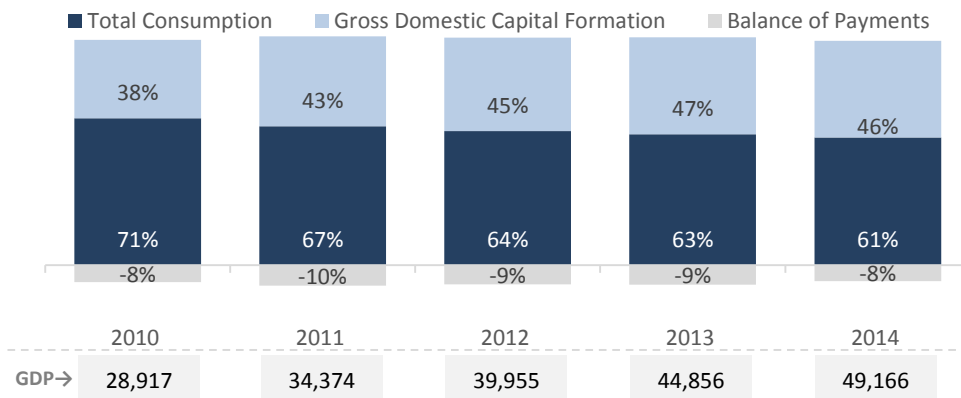
2015 nominal GDP = US\$52 billion, by sector



Investment Grade		
Agency	Rating	Outlook
Moody's	Baa2	Stable
Fitch	BBB	Stable
S&P	BBB	Stable

Private investment continues to play a major role in the economy...

2010-2014 GDP by expenditure focus (% of GDP)



Other strengths:

Open and dollarized economy

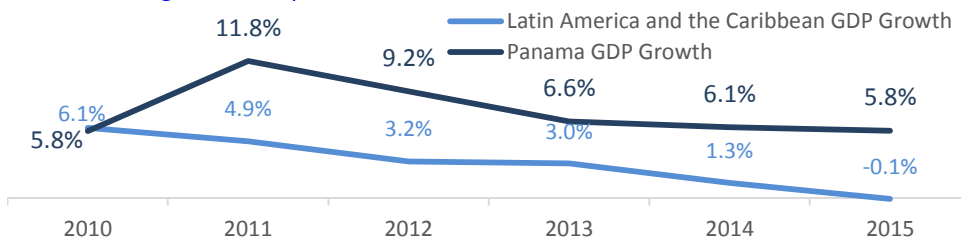
Moderate debt burden ≈ 39% of GDP as of December 2015

Robust financial sector

Comparative advantages (Panama Canal)

Panama continues to outperform the region, even in tough economic times...

Panama GDP growth compared vs Latam



1. Macroeconomic Overview

Gross Domestic Product

Inflation & Society

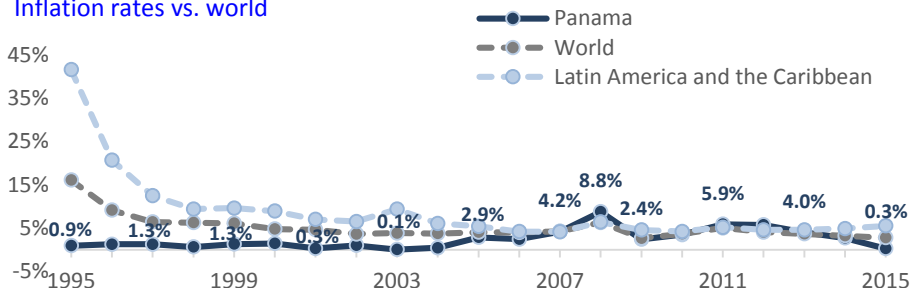
Foreign Direct Investment

Competitiveness

While inflation rates continue to be low due to the global economic environment, Panama still enjoys full employment rates and the Panamanian population continues to enjoy rising income...

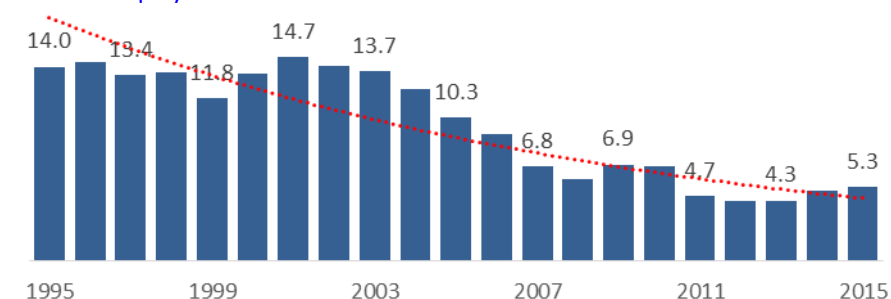
Historical inflation has been around 2%; however, it continues to be low mainly due to oil prices...

Inflation rates vs. world



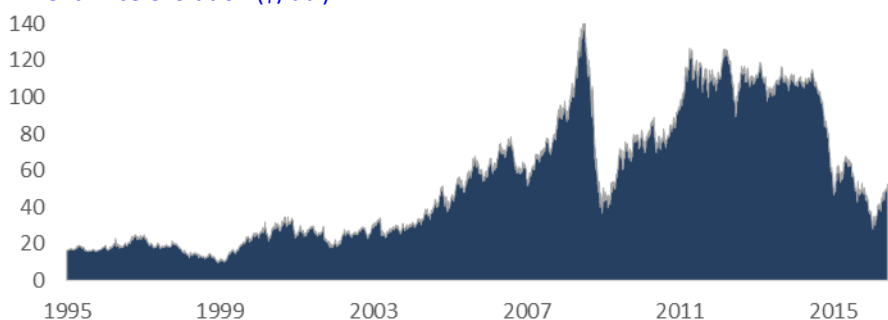
Social policies and private investment have fostered a stable labour market...

Total Unemployment rate



Although commodity prices remain at historic lows, our non-dependency on commodity production allows us to build a stronger economy...

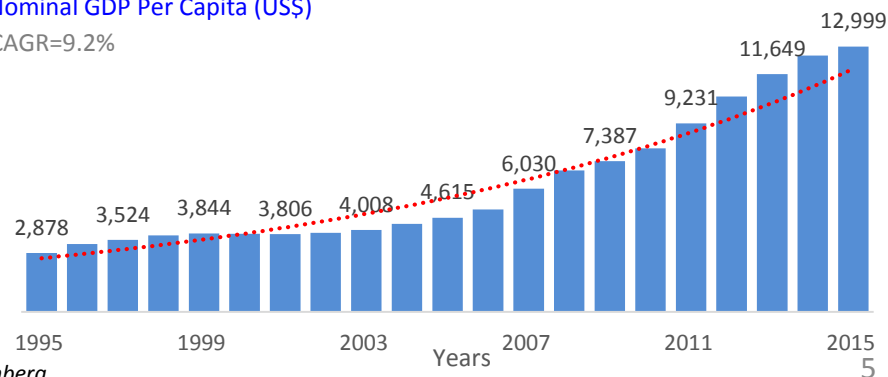
Brent Price evolution (\$/bbl)



Meanwhile, Panamanian's income continues to rise...

Nominal GDP Per Capita (US\$)

CAGR=9.2%



1. Macroeconomic Overview

Gross Domestic Product

Inflation & Society

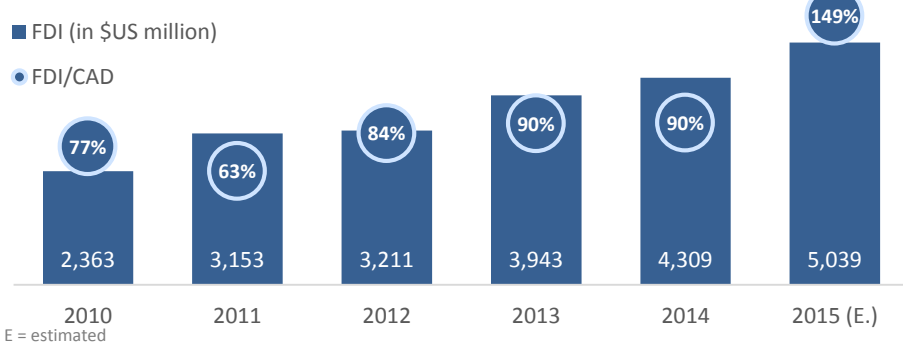
Foreign Direct Investment

Competitiveness

Foreign Direct Investment (FDI) has continued to flow inward, increasing by 16% annually since 2010...

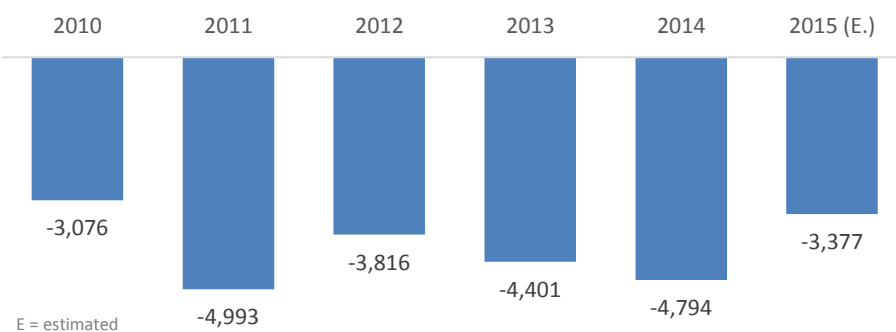
Positive business climate, stable political environment, and policy continuity underpin Panama's FDI momentum....

Foreign Direct Investment (in US\$ million)



These phenomena reflect Panama's established service economy that takes advantage of our unique advantages...

Current account deficit (in US\$ million)



Over 120 high-profile companies choose Panama as their hub for business...

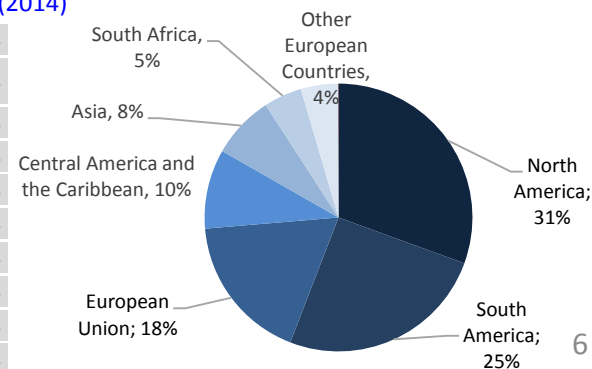
Companies registered in Panama



Foreign capital comes from all over the globe, focused on Panama's leading industries...

FDI by Sector and region (2014)

Trade	28.05%
Communications & transport	18.38%
Financial intermediation	16.31%
Mining	10.97%
Manufacturing	8.28%
Electricity and water	6.55%
Real Estate and Business	5.21%
Construction	2.62%
Agriculture	1.11%
Others	2.52%



1. Macroeconomic Overview

Gross Domestic Product

Inflation & Society

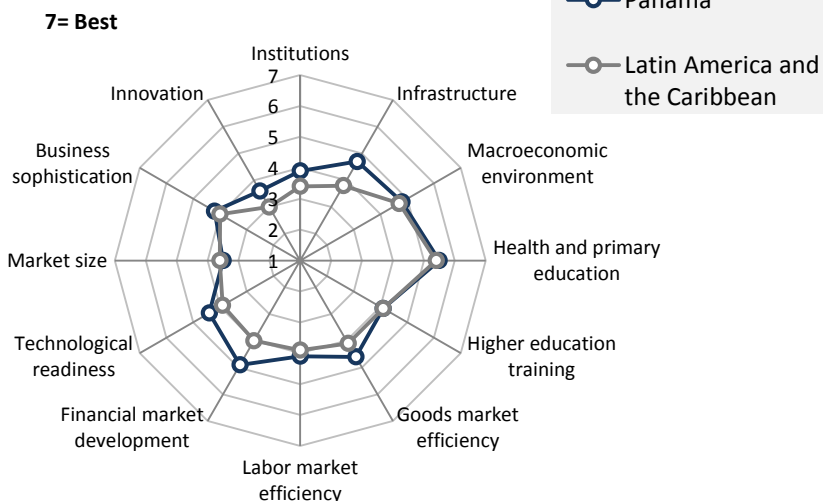
Foreign Direct Investment

Competitiveness

According to the World Economic Forum (WEF), Panama is the second most competitive country in Latin America, due to Panama's strong financial sector and infrastructure quality...

RANKING HIGHLIGHTS

Quality of air transport infrastructure	6
Quality of port infrastructure	7
Mobile telephone subscriptions	15
Effect of taxation on incentives to invest	33
Ease of access to loans	13
Availability of financial services	16
Affordability of financial services	18





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2. Fiscal Performance

2015 Rev.
NFPS

1Q-2016
NFPS

Non-Financial Public Sector (in US\$ million)	December 2015 (Rev.)	December 2014 (Rev.)	Variation
			YoY (%)
Total Revenue	10,656	10,225	4.2%
General Government Current Revenue	10,271	9,903	3.7%
Public Enterprise Balance	123	119	3.7%
Non-Consolidated Agencies and Others	198	123	60.5%
Capital Income	48	78	-38.5%
Donations	16	2	681.6%
Total Expenditure	11,880	11,788	0.8%
Current Expenditure	8,285	7,957	4.1%
Interest	940	843	11.6%
Current Savings	2,307	2,188	5.5%
Capital Expenditure	3,595	3,830	-6.1%
Primary Balance	-284	-720	-60.6%
Deficit	-1,224	-1,563	-21.7%
% of GDP	-2.3%	-3.2%	
Sovereign Wealth Fund Adjustment	-181		
Adjusted Balance	-1,034		
% of GDP	-2.0%		

Source: CGR, SBP, BNP, CA, Decentralized Entities, MEF.
Nominal GDP for 2015 = US\$52,132million
Nominal GDP for 2014 = US\$49,166 million

As of December 2015...

- NFPS deficit totaled US\$1,224 million, 2.3% of GDP, a decrease of 0.9 percentage points compared to the previous year.
- The improved revenue performance is mainly due to contributions from Tax Collection, CSS, Non-Consolidated Agencies and Others.
- Current savings financed 64% of NFPS capital expenditure.
- NFPS capital expenditures reached US\$3,595 million (6.9% of GDP) as a result of projects such as: Metro Line 1 and 2, Low income household repairs and reconstruction, hospitals, road repairs and others.
- The primary balance improved compared to the previous year.

2. Fiscal Performance

2015 Rev.
NFPS

1Q-2016
NFPS

Non-Financial Public Sector (in US\$ million)	March 2016 (Prel.)	March 2015 (Rev.)	Variation YoY (%)
Total Revenue	2,779	2,411	15.3%
General Government Current Revenue	2,482	2,226	11.5%
Public Enterprise Balance	20	51	-61.4%
Non-Consolidated Agencies and Others	277	123	125.0%
Capital Income	0	5	-93.5%
Donations	0	6	-100.0%
Total Expenditure	2,996	2,966	1.0%
Current Expenditure	2,136	2,133	0.2%
Interest	390	378	3.1%
Current Savings	642	268	140.2%
Capital Expenditure	860	833	3.2%
Primary Balance	172	-177	-197.2%
Deficit	-217	-555	-60.9%
% of GDP	-0.4%	-1.1%	

As of March 2016...

- NFPS deficit totaled US\$217 million, 0.4% of GDP, a decrease of 0.7 percentage points compared to the same period of the previous year.
- The improved revenue performance is mainly due to contributions from CSS, Non-Consolidated Agencies and others.
- Current Savings financed 75% of NFPS capital expenditures.
- Current expenditures increased slightly compared to the previous year, while revenue and capital expenditures also increased.

Source: CGR, SBP, BNP, CA, Decentralized Entities, MEF.
Nominal GDP for 2015 = US\$52,132 million
Projected annual GDP for 2016 = US\$53,869 million



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3. Debt Profile and Performance

Portfolio Composition

Debt Ratios

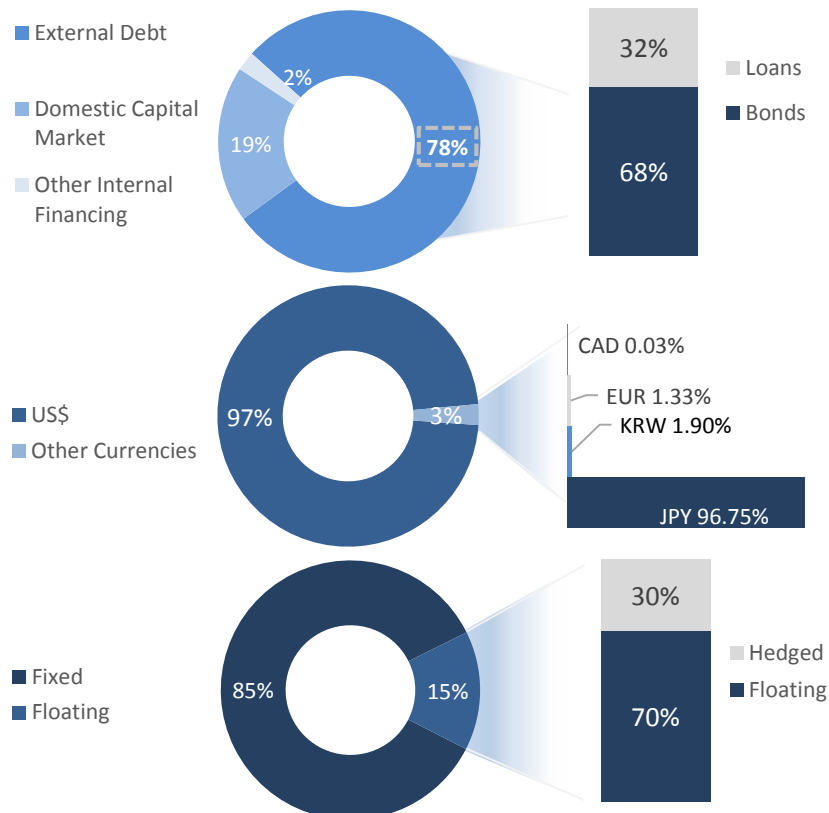
Capital Market Initiatives

As of March 2016, total public sector debt amounted to US\$21,312 million: US\$16,683 million external and US\$4,629 million internal.

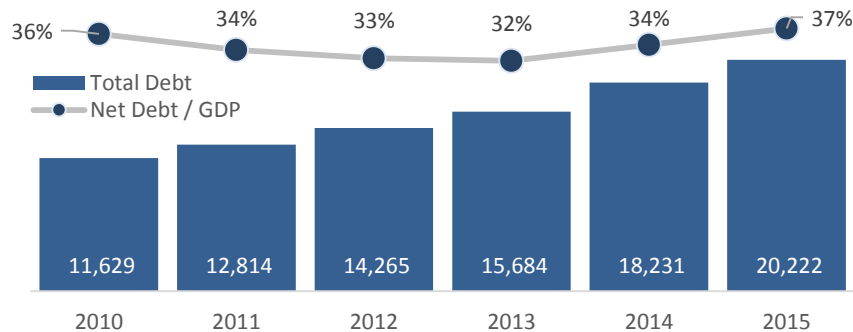
The public debt structure has improved as capital markets deepen...

Despite the slight increase in the debt/GDP ratio, we expect to reduce our debt by increasing income and with positive adjustments to the primary balance...

Debt Profile (as of March 2016, as a percentage of the total)



Net Debt evolution and Debt/GDP ratio



19% of total public sector debt is expected to mature in the 2016-2019 period...

Redemption Profile 2016-2053



Source: Ministry of Economy and Finance (MEF)

3. Debt Profile and Performance

Portfolio Composition

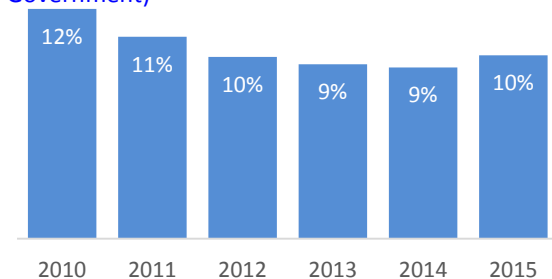
Debt Ratios

Capital Market Initiatives

Consistent fiscal discipline and efficient expenditure management have contributed to maintaining good indicators associated with the Republic's capacity to deal with its debt obligations.

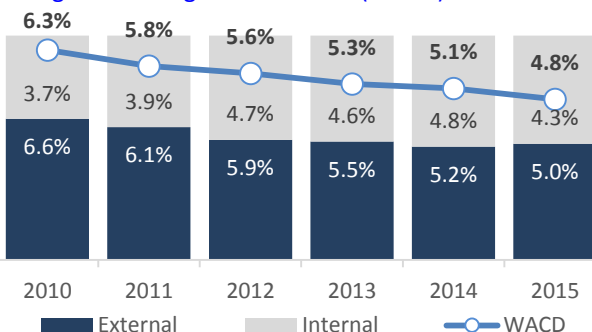
Interest expenditure continues to be manageable...

Interest as % of total expenditures (Central Government)



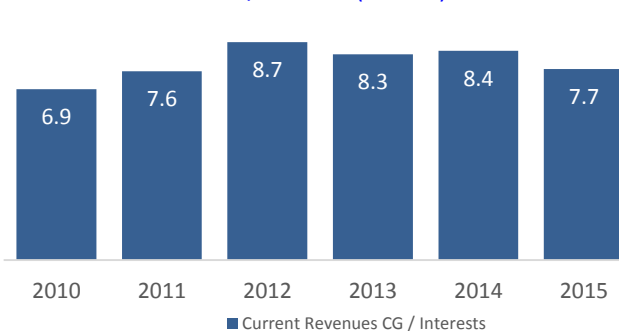
Our WACD shows a significant decrease since 2010...

Weighted Average Cost Of Debt (WACD)



Diligence in debt management and revenue growth help maintain a healthy fiscal position

CG Current Revenues/ Interest (in time)



The Varela administration has pledged to respect and fully comply with the Social and Fiscal Responsibility Law, and we continue to do so. For 2016, the NFPS deficit limit is 1.5% of GDP...



3. Debt Profile and Performance

Portfolio Composition

Debt Ratios

Capital Market Initiatives

Since 2011, frequent and recurring auctions have been conducted, increasing the volume of issuances in the domestic market. We plan to continue deepening the local market.

The Market Makers program continues to foster development of the domestic market...

Market Makers



Candidates to Market Makers



(as of March 31, 2016)

And Euroclear allows international investors to access Panama's local market through the I-Link platform...

Amount migrated as of 1Q-2016

\$424 million

(nominal value)



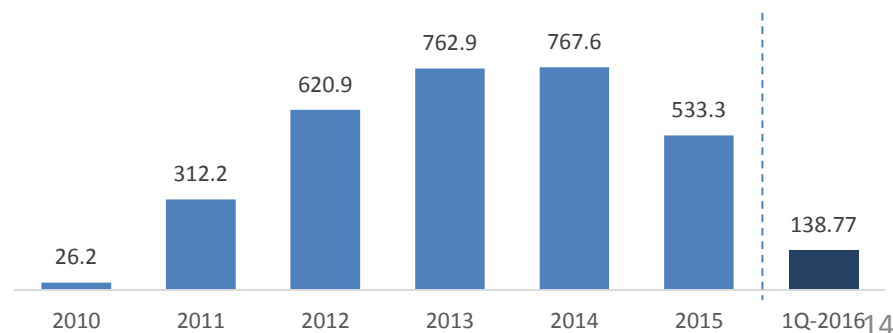
euroclear

Local Financial Instruments as of June 13th 2016

(US\$ million)	Outstanding	Price	Yield	Spread vs UST
Nota 2018	993.9	105.40	2.22	150
Nota 2019	459.2	99.85	3.05	220
Nota 2021	665.2	105.75	3.52	243
Bono 2022	1,364.0	110.30	3.72	242
Bono 2024	100.0	105.35	4.15	267

The trading volume in the secondary market has shown an average growth rate 83% (CAGR) since 2010...

Negotiated Volumes (in US\$ million)





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4. Risks and Buffers

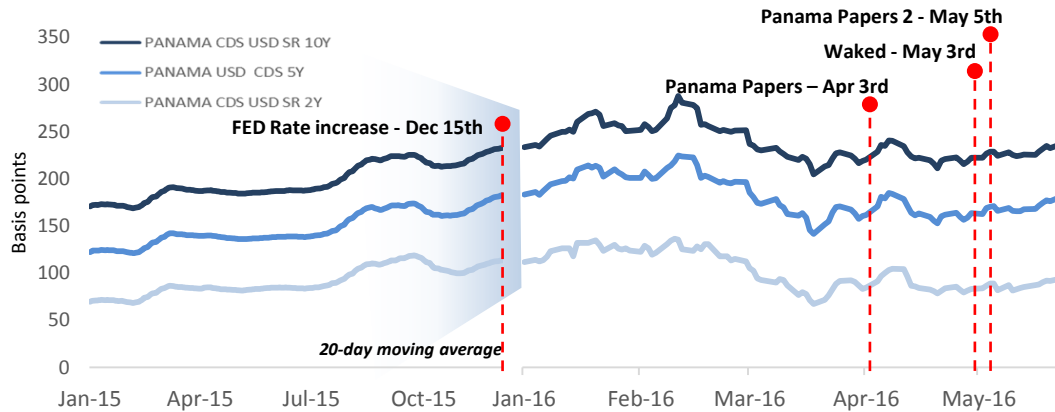
CDS
EMBIG

Banking
System Liquidity

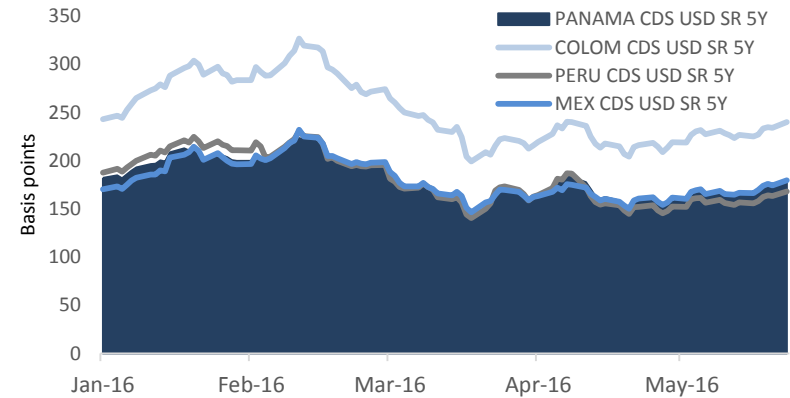
Risk
Matrix

Sovereign risk indicators continue to perform among the best in the region, as a result of confidence by international investors in Panamanian debt instruments. Recent developments have not affected our risk profile...

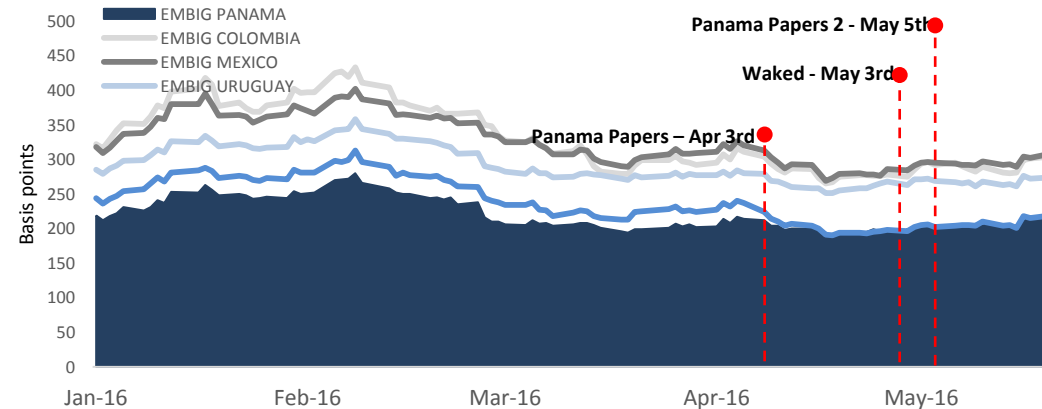
Credit Default Swaps (CDS) evolution timeline...



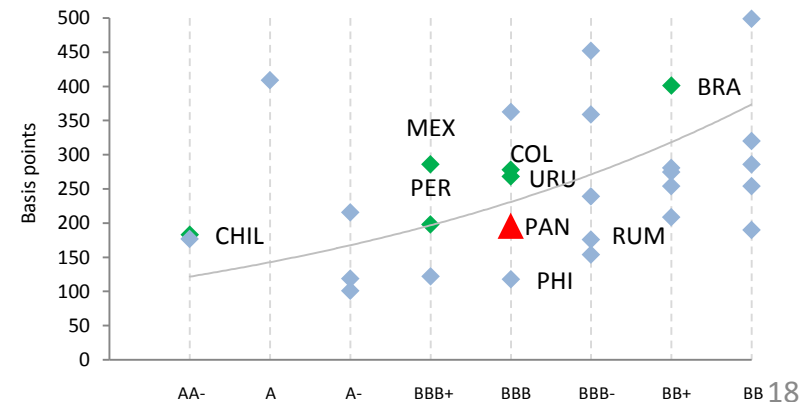
CDS 5Y Comparison of Panama and Latam Peers



Our EMBIG spread continues to be tight against our regional peers...



S&P's Emerging LATAM Markets Credit Ratings vs EMBIG (As of March 31st 2016)



Source: Bloomberg

4. Risks and Buffers

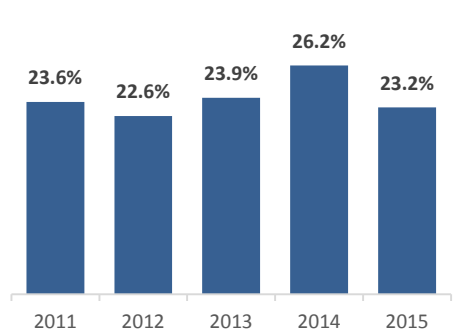
CDS
EMBIG

Banking
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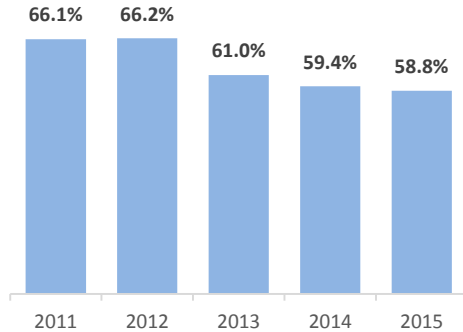
Risk
Matrix

The National Banking System (NBS) boasts a solid, stable foundation, characterized by high liquidity and adequate capital levels.

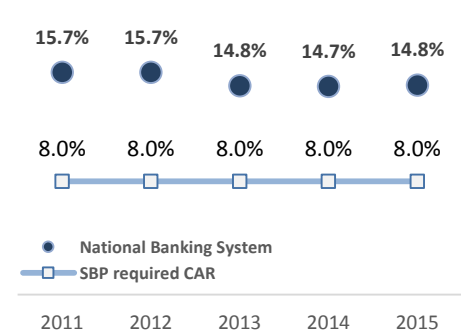
Liquid Assets / Total Deposits



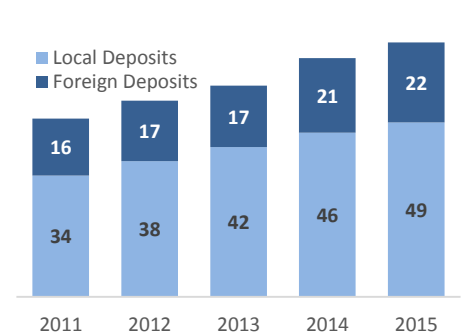
NBS
Liquidity Ratio



Capital Adequacy Ratio (CAR)



Local and Foreign Deposits



94

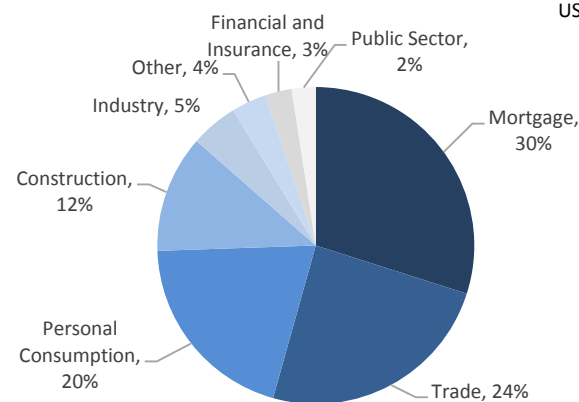
Number of banks in the International Bank Center as of March 2016

US\$ 45,874 million

Internal credit in the National Banking System as of March 2016

NBS Loans by Economic Sector (March 2016)

US\$45,874 million



4. Risks and Buffers

CDS
EMBIG

Banking
System Liquidity

Risk
Matrix

In response to recent adverse events, we are taking action to mitigate corresponding risks with focused policies, regardless the origin of the issue.

ADVERSE EVENT	POTENTIAL CONCERN (1= HIGH)	RISK	GOVERNMENT ACTION
Waked case	1	Unemployment	Partial intervention to assure that debts are paid and avoid economic contagion.
Panama Papers	1	Corresponding banking decline	Implementation and enforcement of law 18.**
Economic growth deceleration	1	Deterioration of macroeconomic indicators	Improving public spending allocation and improved tax collection.
Gray list Inclusion	2	Reputational Risk	Implementation and enforcement of laws 18, 23, 34 and 35.**
Regional FX devaluations	3	Tourism deceleration	Country promotion and tourist incentives.
Venezuela debt	3	Market for exports	Colon Free Zone restructuring through the Colon Puerto Libre law.

** : Laws approved during the gray list removal process: Law 18 regulates bearer shares; Law 23 addresses money laundering and WMD, Law 34 modifies the penal code, and Law 35 concerns compliance with International Aviation standards.



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1.

The sovereign risk indicators of the Panamanian economy continue to outperform the LATAM region, as a result of confidence by international investors in Panamanian debt commitments.

2.

Key factors that support economic growth are a diversified economy, legal stability, promotion of the private sector as the engine of the national economy and a disciplined implementation of public investment.

3.

Our fiscal consolidation process continues to be well driven by responsible public spending and improved tax collection.

4.

Domestic capital markets continue to develop, and new initiatives are expected to continue to foster their growth.

5.

The MEF and the Government as a whole are fully committed to giving a rapid response to any adverse issue that might pose a threat to high economic performance.



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