REPUBLIC OF PANAMA
MINISTRY OF ECONOMY AND FINANCE
EXECUTIVE DECREE No. 1068
(of September 6th, 2012)
That regulates Law 38 of June 5th, 2012, which creates the Sovereign Wealth Fund of Panama and Amends Law 34 of June 5th, 2008, on Social Fiscal Responsibility

THE PRESIDENT OF THE REPUBLIC
In use of its constitutional and legal powers; and

CONSIDERING:

That through Law No. 38 of June 5th, 2012, the Sovereign Wealth Fund of Panama was created, with the objective of establishing a long-term savings mechanism for the Panamanian State, and, in addition, a stabilization mechanism for cases of emergency and economic slowdown and also amends Law 34 of 2008 on Social Fiscal Responsibility;

That the aforementioned Law repealed Law 20 of May 15th, 1995, which creates the Trust Fund for Development, replacing it for all legal purposes;

That in accordance with Paragraph 14 of Article 184 of the Political Constitution of the Republic of Panama, in accordance with Article 39 of Law 38 of June 5th, 2012, the Executive Branch shall regulate aspects concerning the Law, without deviating from the text or intention, accordingly.

DECREES:
CHAPTER I
General Provisions

ARTICLE 1. The Purpose of this Regulation. The provisions of the present Resolution are intended to regulate the principles to be applied to the management of the Sovereign Wealth Fund of Panama, hereinafter FAP or Fund, created by Law No. 38 of June 5th, 2012, regarding cumulation and withdrawal of funds in or from the Fund, as well as the management and investment policy of its assets.

ARTICLE 2. Reference Acronyms. For the purposes of this Regulation, the following acronyms shall be understood as follows:
ACP: Panama Canal Authority
BNP: National Bank of Panama.
CGR: Office of the Comptroller General of the Republic
CSS: Social Security Fund
FAP: Sovereign Wealth Fund of Panama
FFD: Trust Fund for Development
MEF: Ministry of Economy and Finance.
PGE: State's General Budget.
GDP: Gross Domestic product
NFPS: Non-Financial Public Sector
Law: Refers to Law 38 of June 5th, 2012, which creates the Sovereign Wealth Fund of Panama.

CHAPTER II
FAP's Resources

ARTICLE 3. Cumulation of resources. The source of FAP's initial capital will come from the transfer of the total assets of the Development Trust Fund, hereinafter FFD and from 2015, it will accumulate resources from the contributions of the ACP to the National Treasury, according to the cumulation rule established in article 3 of the Law.

ARTICLE 4. Use of FAP's yields. The State may annually withdraw the interest, dividends and capital gains generated from FAP's assets within the same fiscal year. For purposes of determining the yields to be withdrawn, the realized and unrealized capital losses must be taken into account. If FAP's total yield is negative for realized and unrealized capital losses, the Trustee will inform the MEF and the Board of Directors accordingly and no withdrawals will be allowed from the yields.
FAP's yields will be incorporated into the PGE, and will be transferred annually to the Treasury account of the BNP to be used in public investment.

The MEF must incorporate the FAP's anticipated yields from each fiscal year into the PGE for the corresponding fiscal period; yields that will be forecasted from the effective yields obtained in the first semester and the yield forecasted for the second semester of the current fiscal year. If actual returns exceed those forecasted in the PGE, they may be used in the same fiscal year and if they were lower than those forecasted in the PGE, no withdrawals from the FAP can be made, for the funding gap.

ARTICLE 5. Review of the Cumulation Rule. From the year 2020 and with a frequency of no less than five years between each review, the cumulation rule can be revised at the initiative of the MEF, according, among others, to changes in the size of the contributions of the ACP with respect to the GDP, the behavior of the GDP in the five preceding years and the projected behavior for the next five years, the size of the FAP in relation to the GDP and the differential between the average interest rate on debt and the average rate of return on investments of FAP's assets.

The MEF must submit the proposal to modify the cumulation rule for the approval of the Cabinet Council, who in the event they approve it, will present a reasoned resolution for the approval of the National Assembly of Deputies, by absolute majority, no later than March 31st of the previous fiscal year of the implementation of the amended rule, so that the modification can be incorporated in the PGE.

CHAPTER III
Withdrawals from FAP

ARTICLE 6. Withdrawals from FAP resources. The MEF must calculate the amounts to be withdrawn from the FAP, in order to deal with states of emergency and economic slowdown in accordance with the provisions of the Law and Law 34 of 2008, its regulations and its reforms. A detail of the calculation must be given in the waiver request, including, where appropriate, information on the resources to be obtained from catastrophic insurance and/or contingent emergency credit lines.

Disbursements from the FAP shall be made by the BNP at the request of the MEF sufficiently in advance to allow the Board of Directors to authorize the BNP to make the necessary investment settlements. The withdrawals made from the FAP, will be deposited in the Treasury Account of the BNP.

Withdrawals of funds from the FAP to prepay and withdraw sovereign debt issued by the State through the Central Government must be incorporated and justified in the PGE of the corresponding fiscal year.

In the event that withdrawals permitted under the provisions of the Law and Law 34 of 2008, its regulation and reforms, caused a decrease in FAP's assets, below an amount equivalent to 2% of the nominal GDP of the previous year, the maximum withdrawal to be made shall be limited to the amount in which the FAP's resources exceeded 2% of the nominal GDP of the previous year.

ARTICLE 7. Contracting a catastrophic insurance. The MEF may contract a catastrophic insurance to transfer and mitigate part of the risk associated with possible natural disasters. The costs associated with catastrophic insurance premiums should be included in FAP's annual budget. The insurance may be contracted starting in 2015 and may be maintained only as long as the FAP's assets do not exceed 5% of the previous year's GDP. The maximum cost of catastrophic insurance annual premiums may not exceed 0.3% of the FAP Assets.

CHAPTER IV
Investments and Restrictions to Investment

ARTICLE 8. General Guideline for Investment. The investment of the FAP's resources should be made taking into account the objectives of establishing a long-term savings and a stabilization mechanism in cases of states of emergency and economic slowdown, reducing the need to use debt instruments to address these circumstances.

ARTICLE 9. General Criteria for Investment. Investments of the Fund's resources must be made in conditions of optimum performance and certainty of recovery. These investments must meet criteria regarding maintenance, performance and diversification of risk, as well as to any other criterion provided in the Law, this Regulation and in the investment guidelines issued by the MEF.

ARTICLE 10. Investment in bonds of the Republic of Panama. The investment in bonds issued by the Republic of Panama will be made according to the limits established in the Law and only in the secondary market. The FAP will not be able to buy the first Treasury bonds issuances. Purchases will be authorized by the Board of Directors and made by the MEF through the Public Credit Directorate in coordination with the BNP and the prevailing investment criterion shall be that the levels of return on investment cannot be lower than the coupon or nominal interest rate amount of the debt security.

ARTICLE 11. Investment guidelines. The MEF, acting as Trustor and as representative of the Republic of Panama, owner of FAP's assets, through Ministerial Resolution, will issue the investment guidelines that will constitute the framework from which the Board of Directors will define the investment policy of the FAP. The Ministerial Resolution will also define the relations between the MEF and the Board of Directors.

The Board of Directors may propose modifications to the investment guidelines for the approval of the MEF. They may also object to investment guidelines and changes therein if, in their opinion, these do not conform to the general investment guidelines established in the Law or to best practices in the market.

The investment guidelines will be issued once the Board of Directors has been constituted, the Technical Secretariat is operating and a new Trust Agreement has been signed with the BNP, at which time the MEF will issue the Ministerial Resolution that will contain said guidelines and that will define the relations between the MEF and the Board of Directors.

Investment guidelines should include, as a minimum, provisions with respect to risk, budget and deviation ranges, asset classes and placement limits per asset class, performance benchmarks and risk rating by issuer and instrument.

The MEF will review the investment guidelines once a year and submit them to the Board for approval before October 31st, to be implemented as of January 1st. The investment guidelines may be modified at any time if circumstances warrant, at the initiative of the MEF, after consultation with the Board of Directors or at the suggestion of the Board of Directors.

The Ministerial Resolution, which defines or changes the investment guidelines, must be published on the FAP's website by the Technical Secretariat no later than five business days after being issued.

Chapter V
Board of Directors, Technical Secretariat and Supervisory Commission

ARTICLE 12 Administrative body. The Board of Directors will directly manage, at the expense and risk of the MEF and with complete independence from the MEF, the FAP's resources with the power to decide their investment, disposal and other activities that correspond to the fulfillment of this function and subject to the objectives, guidelines and restrictions established in the Law, this Regulation and the investment guidelines. Investment decisions of the Board of Directors must be based solely and strictly on economic and financial considerations.

The Board of Directors shall have the power to execute the actions and contracts referred to in the previous paragraph through banks, brokers or any other financial intermediary.

ARTICLE 13. Purpose of management. The objective of FAP's resource management is to preserve the founding capital and the value added with respect to the benchmarks within the investment guidelines and risk standards established in the Law, this Regulation and the investment guidelines issued by the MEF.

ARTICLE 14. Constitution of the Board of Directors. The Board of Directors must be constituted by December 31st, 2012. For this purpose, the MEF will submit to the consideration of the National Assembly of Deputies the appointments of the Directors no later than October 15th, 2012.

If the National Assembly of Deputies rejects one or more appointments, the MEF must propose new names within a week of the rejection of the appointment and the National Assembly of Deputies will have a one week term to reach a decision. If any of the appointments are rejected, the process will be repeated a second time.

If there is no agreement, the appointments will be assigned to one of the names originally presented by the MEF, at the discretion of the latter.

ARTICLE 15. Internal Regulations of the Board of Directors. The Board of Directors shall adopt internal regulations in accordance with the provisions of Article 15 of the Law. Said regulations shall be published on the FAP’s website by the Technical Secretariat.

ARTICLE 16. Annual Investment Plan. The Board of Directors must prepare an Annual Investment Plan, hereinafter the Plan to implement the investment policy of the FAP's resources. The Plan must be updated once a year and in the event of significant changes in the investment environment.

The Board of Directors must undertake a quarterly evaluation of the fulfillment of the objectives established in the Plan and make the necessary changes to correct deviations.

ARTICLE 17. Duties of the Board of Directors in the event of non-compliance with the investment guidelines. In the event that the limits set out in the investment guidelines are exceeded, the Board should evaluate how to correct deviations in an appropriate and cost effective manner.

ARTICLE 18. Right of the Board of Directors to deviate from the limits. Under special circumstances, the MEF may authorize the Board of Directors to deviate from the investment guidelines. These circumstances should be defined in the investment guidelines.

ARTICLE 19. Relations between the Board of Directors and the MEF. The relations between MEF and the Board of Directors shall be governed by the following rules:

1. The board of directors has the prerogative to object to investment guidelines and changes to the investment guidelines proposed by the MEF.
2. The MEF will notify the Board of Directors of the changes to be implemented in the investment guidelines sufficiently in advance to allow the required changes to be made to the investment portfolio.
3. The Board of Directors will advise the MEF regarding the investment strategy for the FAP. Recommendations may be made at the initiative of the Board of Directors or at the request of the MEF.
4. The Board of Directors shall advise the MEF regarding the need to make changes to the Terms and/or the investment guidelines of the FAP, at the initiative of the Board of Directors or at the request of the MEF.
5. The Board of Directors shall deliver quarterly reports to the MEF, no later than forty-five (45) days after the end of the quarter and annual reports by January 31st at the latest, on the portfolio management of the FAP's resources and the Performance evaluation by the external managers. Also, on an annual basis, no later than March 31st, the Board of Directors shall provide the MEF with a report on the service provided by the custodian(s).
6. The Board of Directors must inform MEF in the event of any significant changes affecting compliance with the investment guidelines.
7. The Board of Directors must inform the MEF of the need to impose legal or administrative actions to defend or safeguard FAP's assets, intended to give effect to civil, criminal and administrative liabilities that correspond to the damages, crimes or infringements committed by the management or safekeeping companies.
8. The Board of Directors must inform the MEF in a timely manner of any deviations that may occur regarding the limits and restrictions established in the investment guidelines and propose corrective measures.
9. The Board of Directors will provide the MEF with the information that the Ministry requires including information to consulting firms that assist the MEF in the performance assessment of the Board of Directors.
10. The MEF and the Board of Directors shall meet at least once a year and at the request of the Minister or the Board of Directors.

ARTICLE 20. Tendering Guidelines. The Board of Directors will define the tendering guidelines to be used by the Technical Secretariat in the competitive processes for the selection of consultants and the administrative, custodial and external audit companies. The tendering guidelines and modifications to the tendering guidelines shall be published on the FAP’s website by the Technical Secretariat.

ARTICLE 21. Custody Guidelines. The Board of Directors shall define the custody guidelines to be used by the custodian(s) contracted. Custody guidelines and modifications to custody guidelines should be posted on the FAP's website by the Technical Secretariat.

ARTICLE 22. Administrative Companies. The Board of Directors is empowered to delegate to one or more legal entities (hereinafter, "External Administrators") the portfolio management of a part or all of FAP's resources and to confer mandates on the External Administrators, in the same terms and with the same powers conferred on them in relation to the management of the FAP's resources, and in accordance with the provisions of Article 29 of the Law.

ARTICLE 23. Custodial Companies. The Board of Directors may contract one or more financial institutions, hereinafter Custodians, global custody services of the securities and instruments acquired with FAP's resources in accordance with the provisions of Article 29 of the Law.

ARTICLE 24. FAP's Annual Budget. The FAP's Annual Budget (hereinafter the Budget), must be approved by the Board of Directors at the third ordinary quarterly meeting of the year prior to the budget's period. The Board of Directors will send the approved Budget for the non-objection from the MEF by October 31st. The Budget must be published on the FAP's website by the Technical Secretariat no later than December 15th.

The Budget may only be modified by unanimous approval of the Directors and by a reasoned opinion. The modified Budget and the reasoned opinion must be published on the FAP's website by the Technical Secretariat.

The Budget will be financed with the FAP's resources and must include, as a minimum, the following elements;

1. Board of Director's Allowances
2. Compensation to the members of the Supervisory Commission
3. Annual rate of Management Companies.
4. Annual rate of Custody Companies.
5. Annual External Auditor's Fee
6. Annual BNP commission, as Trustee
7. Salaries of the Technical Secretariat
8. Expenses associated with the creation and maintenance of the FAP's website.

The MEF, through a Ministerial Resolution, will establish the amounts of the allowance and compensation to be paid to the Directors and members of the Supervisory Commission, respectively, in accordance with the provisions of Articles 15 and 18 of the Law. The BNP's annual commission in its capacity as Trustee will be established in the Trust. The amounts budgeted for these purposes may not exceed the amounts established in the Ministerial Resolution and in the Trust, respectively.

The BNP will open an operative account for the FAP, in which the amount authorized in the Budget will be deposited on a monthly basis and that the BNP will transfer from the FAP.

ARTICLE 25. Technical Secretariat. Article 24 of the Law states that the FAP will have a Technical Secretariat, hereinafter the Secretariat, whose objective is to provide technical support to the Board of Directors.

The Secretariat must be operational three months after the Board of Directors is constituted. Once the Board of Directors is constituted, it will take charge of starting the process of hiring the Technical Secretary. Once appointed, the Technical Secretary will support the Board of Directors in hiring the remaining staff of the Secretariat.

The officials of the Technical Secretariat are obliged to keep strict confidentiality and not to use the information to which they have access for their benefit or that of a third party by reason of their functions.

ARTICLE 26. Supervisory Commission. The constitution of the Supervisory Commission, hereinafter the Commission, will be carried out by the MEF and must be constituted on June 30th, 2013. It will be the responsibility of the different trade unions represented in the Commission and the Ecumenical Council of Panama to designate and remove the persons who integrate the Commission.

The MEF must issue the call for the annual meeting of the Commission no later than May 31st, and they must meet no later than April 30th.

At the beginning of each annual meeting, the members of the Commission shall elect one of their members as President and one as Secretary, who shall be responsible for the preparing the opinion report to be submitted to the MEF no later than June 30th. The President and the Secretary will receive a higher compensation than the rest of the members of the Commission, and the amount of the compensation must be established by the MEF through a Ministerial Resolution.

The Commission shall adopt an internal regulation which shall define the conditions of its operation, in accordance with the provisions of Articles 17 and 18 of the Law and this Regulation. The rules of procedure shall be adopted no later than three months after the Commission has been formally constituted. For the purposes of the preparation and adoption of the internal regulations, the Commission shall appoint one of its members as President and another as Secretary and shall meet at least twice for such purposes. The members of the Commission shall be entitled to special compensation for the two meetings, with the President and Secretary receiving a greater compensation than the rest of the members of the Commission. This special compensation must be established by the MEF through a Ministerial Resolution.

The Rules of Procedure of the Commission shall be published on the FAP website by the Technical Secretariat.

CHAPTER VI
Administration of FAP

ARTICLE 27. Trust. The MEF, in representation of the State and in its condition as Trustor will sign, jointly with the Trustee, an irrevocable Trust contract, which will be called FAP Trust in order to create an autonomous patrimony that allows the preservation of the FAP's assets, and its use for the purposes expressly established in Law 38 of June 5th, 2012 and this Regulation.

For this purpose, the MEF will transfer all the FAP's assets to the Trustee for fiduciary management.

The Trust and subsequent changes may not contravene the investment, tendering and custody guidelines, the Annual Investment Plan, as well as the provisions of the Law and these Regulations.

The Trust must be signed no later than forty-five days after the Board of Directors is formed.

The Trust may be amended only by mutual agreement between the Trustor and the Trustee, with the knowledge of the Board of Directors, at the initiative of one of them or of the Board of Directors.

The Trust contract must be published on FAP's website by the Technical Secretariat.

ARTICLE 28. Trustees' Fees
The Trust will be subject to remuneration. The fees of the Trustee shall be agreed by mutual agreement with the Trustor. This remuneration shall be charged to the Fiduciary Assets. Likewise, all the costs and expenses incurred by the Trustee in relation with the Trust shall be charged to the Trust.

ARTICLE 29. Trustor. The MEF, as Trustor, will issue the investment guidelines and ensure that the Board of Directors is governed by the investment parameters of the FAP.

The MEF must also ensure transparency in the disclosure of FAP operations as established in Article 21 of the Law.

The MEF must prepare a detailed annual report on the operations of the FAP with the information provided by the FAP's Board of Directors and the Custodian (s), to be presented to the Plenary of the National Assembly of Deputies no later than June 30th. The MEF's Annual Report should be published on FAP's website by the Technical Secretariat.

The quarterly reports and the Annual Report of the Board of Directors should be published on FAP's website by the Technical Secretariat.

CHAPTER VII
Other provisions

ARTICLE 30. Administration of the FAP. Until such time as the Board of Directors and the FAP's Secretariat are constituted, the resources of the FAP shall be administered by the BNP, under the terms of the existing Trust signed with the MEF, for the administration of the FFD. In addition, the MEF and the BNP will be in charge of the liquidation of the FFD's assets, for transfer to the FAP.

ARTICLE 31. Responsibility for the public function. Public servants, directors and personnel who are responsible for decision, authorization and execution on any matter regulated by the Law and these Regulations, shall be held accountable for the decisions taken, the actions executed and the results obtained, according to their Jurisdiction.

Public servants, directors and personnel who fail to comply with the Law and this Regulation, may be sanctioned in the corresponding law enforcement entities, complying with the guarantees of a due process.

CHAPTER VIII
Amendments to the Regulation of Law 34 of 2008 and its reforms

ARTICLE 32. Article 1 of the Executive Decree is amended. No 50 of June 26, 2009 and will read as follows: **"Article 1. Purpose and Scope of Application of this Regulation.**

The provisions of this Regulation shall apply to public sector entities throughout the territory of the Republic and they shall regulate the principles and methodology required for strengthening fiscal discipline, through Social Fiscal Responsibility compliance and implementation standards established under Law 34 of June 5, 2008 and its reforms.

For information and accountability purposes, Law 34 of June 5th, 2008 and its amendments, as well as this Regulation, shall apply to all entities of the Public Sector, which includes the Non-Financial Public Sector, Tocumen International Airport, S.A., Empresa de Transmisión Eléctrica, S.A., Empresa Nacional de Autopistas, S.A., The Panama Canal Authority and the Public Financial Companies that collect deposits.

For the purposes of measuring the adjusted Fiscal Balance, the scope of Law 34 of June 5, 2008 and its reform, as well as this Regulation covers the Non-Financial Public Sector, comprised by the General Government (Central Government , Social Security Fund and Consolidated Agencies) Non-financial Public Enterprises, excluding the Tocumen International Airport, S.A., the Empresa de Trasmisión Eléctrica, S.A., Empresa Nacional de Autopistas, S.A; and Decentralized Institutions or Entities, among which are included Local Governments or Municipalities.

The Law on Social Fiscal Responsibility and this Regulation shall also apply to the Special Funds of the Non-financial Public Sector (trusts and others) created for specific purposes and whose resources are consolidated in fiscal accounts. Within the report of the Non-Financial Public Sector's Fiscal Balance, detailed information on the financial information of these funds will be provided.

ARTICLE 33. Article 2 of the Executive Decree is amended. No 50 of June 26, 2009 and will read as follows:
"Article 2. Acronyms for reference.

The use of the following acronyms is recognized for the purposes of this Regulation's contents:

Law: Law 34 of 2008 on Social Fiscal Responsibility.
Regulation: Regulation of Law 34 of 2008 on Social Fiscal Responsibility.
PS: Public Sector
NFPS: Non-financial Public Sector
CSS: Social Security Fund
CGR: Office of the Comptroller General of the Republic
MEF: Ministry of Economy and Finance
NPIS: National Public Investment System.
ACP: Panama Canal Authority
GDP: Gross Domestic Product

PEG: Strategic Government Plan
PGE: State's General Budget
ACND: Agreements of the National Coalition for Development
MFMP Framework: Medium Term Fiscal Framework
AITSA; Tocumen International Airport
ENA: Empresa Nacional de Autopistas, S.A.
ETESA: Empresa de Transmisión Eléctrica, S.A.
FAP: Sovereign Wealth Fund

ARTICLE 34. Article 5 of Executive Decree No. 50 of June 26th, 2009 is modified and will read as follows:
"Article 5. Principle of Responsibility.

Public officials must observe, comply with and enforce the provisions established in the Law and its regulations.

The principle of responsibility is based on increasing the adjusted current savings of the Non-financial public sector to finance investments and that, inasmuch as possible, dependence on the use of debt instruments decreases, establishing limits to growth of the same.

The principle of responsibility of the civil service implies that public servants must act in accordance with legal procedures established by the Law for public functions and those listed in its Regulations."

ARTICLE 35. Article 11 of Executive Decree No. 50 of June 26th, 2009 is modified and reads as follows:
"**Article 11. Methodology for Determining and Accounting Rule for the Consolidated Adjusted Fiscal Balance of the NFPS**

Calculating the Consolidated Adjusted Fiscal Balance of NFPSs requires eliminating transactions between the Central Government and other consolidated entities of the NFPS. On the financing side, debt operations between the Central Government and the rest of NFPS will be offset.

The presentation of the NFPS Consolidated Adjusted Fiscal Balance must include a statement of accounts payable by the Central Government, which is obtained from the MEF. This report will provide details by institution, maturity and amount.

The quarterly assessment report referred to in Article 26 of the Law, as well as the Compliance Report covered under Article 20 of the Law must contain the information on accounts payable.

Public institutions should ask the MEF for cash reserves accrued or existing up to December 31st, and these must be paid no later than April 30th of the following year.

Cash surpluses resulting from uncommitted budget appropriations by December 31st will revert to the Treasury in the first 15 days of the next fiscal year and may not be used to finance additional expenditures not included in the next fiscal year's budget.

The Consolidated Adjusted Fiscal Balance shall be adjusted by differences resulting from trusts' operations, in the event that the transfers made by the Central Government exceed or are less than the costs incurred upon directly by the trusts, in the corresponding fiscal year.

Individual accounts from contributors to the Social Security Fund's voluntary scheme will not be considered for calculating NFPS fiscal accounts.

For purposes of measuring compliance with the financial limits set out in Articles 10, 11 and 12 of the Law for the 2009 fiscal year, an adjustment will be made for determining how the Consolidated Fiscal Balance of the NFPS will be financed to compensate a decrease in liquid assets of the Social Security Fund that will occur upon removing deposits in the individual accounts of the voluntary scheme accrued as of December 31st, 2008.

The MEF will have the responsibility of measuring compliance with the NFPS Consolidated Adjusted Fiscal Balance.

In the event of a statistical discrepancy between the Consolidated Adjusted Fiscal Balance of the NFPS and the financing of the Consolidated Adjusted Fiscal Balance of the NFPS, funding will be used in order to determine compliance with the financial limits established in Article 10 of the Law and its reforms."

Article 36. Article 12 of Executive Decree No. 50 of June 26th, 2009 is modified and will read as follows:

"Article 12. Adjusted Fiscal Balance of the Non-Financial Public Sector

Pursuant to Article 10 of the Law and its reforms, the PGE draft bills will also have revenue forecasts and a maximum authorization for a cap in total expenditures, (accrued budget) that Entities of the NFPS can commit to, a forecast of expected payments for the corresponding fiscal year (cash budget). They will also report on the indicative budgetary caps for each of the NFPS entities consistent with the target of an absolute amount of the deficit of 2.9% of GDP for 2012, 2.8% for 2013, 2.7% for 2014, 2% for 2015, 1.5% for 2016, 1% for 2017 and 0.5% for 2018 thereon; positive adjusted current savings as required by Article 14 of the Law and its reforms, a primary surplus in line with the level of debt / GDP and interest / current revenues of the NFPS and consistent with the public debt limit as required by Article 13 of the Law and its reforms.

The Consolidated Adjusted Fiscal Balance of the NFPS is calculated by including in the income the total contribution of the ACP in the corresponding fiscal period. The adjustment to be made to the Consolidated Fiscal Balance of the NFPS to calculate the Consolidated Adjusted Fiscal Balance of the NFPS, to which the limit established in article 10 of the Law and its reforms is applied, corresponds to the contribution that is made to the FAP as planned in Paragraph 1 of Article 3 of the FAP's Law. In the event that the contribution of the ACP is less than the percentage established in paragraph 1 of article 3 above, the adjustment will be calculated as the difference between the actual contribution of the ACP and the percentage established in paragraph 1 of article 3 of The FAP Act.

The MEF will monitor the fulfillment of the indicative limits of NFPS institutions and will take them into account to authorize additional credits to the budget, changes in monthly allocations and budget modifications between institutions, including local or municipal governments, and will draft containment and/or expenditure reduction plans if available revenues are lower than those projected in the PGE.

The MEF should take into account compliance with the limits of Entities of the NFPS when authorizing and managing credit operations, including local or municipal governments.

Public institutions shall send a report to the MEF, CGR and the National Assembly's Budget Committee, within the first twenty (21) days of each previous month and in a cumulative manner, showing the budgetary implementation with information concerning revenues, expenses, investments, public debt, cash flow and other details requested. In addition and within the first twenty (21) days after the end of each quarter, a copy of their financial statements will be presented to these institutions.

Based on the above, the MEF shall prepare a quarterly Evaluation Report referred to in Article 26 of the Law, in collaboration with the CGR, within thirty (30) days of concluding the corresponding quarter.

The MEF will be in charge of preparing information on turnkey projects and deferred payment of the NFPS, for a five-year time horizon, which is dealt with in Article 10 of the Law and its reforms, and each year, before sending the draft bill of the PGE to the National Assembly, the projection of an additional (1) year within the horizon of five (5) years should be reviewed and updated. If necessary, by changes in the commitments acquired by turnkey projects and / or deferred payment by the entities of the NFPS, such information must be revised to incorporate the changes, always within the five-year horizon."

ARTICULO 37. Article 15 of Executive Decree No. 50 of June 26th, 2009 is modified and will read as follows:

"Article 15 Net Debt Reduction Target of the NFPS

The Strategic Government Plan will include annual indicative targets for reducing debt relative to the GDP that will be incorporated in the five-year financial programming, as well as in the PGE laws that are consistent with the limits provided in Article 12 of the Law. In addition, the five-year financial programming will include indicative targets for the interest / current revenues ratio of the NFPS to be incorporated in the respective annual budgets.

The indicative targets will result in indicative limits on the amount of debt that entities of the non-financial public sector can issue and will be specified in the estimated monthly revenues allocations, cash base expenditures and cash flows approved by the MEF.

The total consolidated NFPS debt, corrected by the difference attributable to variations in rates between the dollar and other currencies, may not be increased beyond the deficit limit set by the Law and its reforms, corrected by the variation of holdings of cash and deposits of the NFPS, excluding deposits of prefunding operations, as well as the variation of financial investments of said entities.

For purposes of compliance with the limits established by Law, pre-funding operations will not be considered in the year they are executed, but rather in the fiscal year said funding is used, deducting it from the increase in debt, the pre-funding amount, with the resources obtained through these operations as recorded in bank deposits of Entities of the NFPS until December 31st of the fiscal year they are carried out.

Resources obtained from external and internal credit issued by public sector institutions, with or without Central Government guarantee, or issuance of securities of these institutions for placement on the international and national market, with or without Central Government guarantee, cannot be used to finance current expenditure. The issuance of Treasury notes with less than 360 days and the use of credit lines are exempted. Credit lines must be cancelled within the corresponding fiscal year. Securitization of revenues by NFPS, including municipal governments is prohibited.

If at the end of a fiscal year the Central Government entities and the subsidized Decentralized Sector maintain non-accrued available bank balances, they must be reimbursed to the General Treasury account no later than the last business day in February of the following year.

Once public debt contracts are countersigned, they should be recorded in the MEF. Also public entities must notify the MEF their debt service operations for tracking purposes and for preparing the Consolidated Statement of the Public Debt, thirty (30) days after the end of the month.

Within sixty (60) calendar days after the date of publication of this Regulation in the Official Gazette, municipal governments must record and send to the MEF any credit agreements that are in force.

Public funding agencies that provide credit facilities to public institutions from the NFPS will provide a report to the MEF, the Office of the Comptroller and Budget Committee of the National Assembly within the first ten (10) days of each month, reflecting the credit status granted to these entities.

The MEF will prepare and publish up to thirty (30) calendar days after the end of each quarter, a consolidated statement of NFPS debt broken down by creditor, debtor and executing institution, including municipal governments; timelines for interest payments and other financial costs and quarterly amortizations with the same breakdown of the balance of the corresponding debt. This report will serve as a basis for calculating the debt-to-GDP ratio in accordance with Article 12 of the Law, as well as the ratio of interest paid with respect to current revenues.

As of March 31st of each fiscal year the MEF must submit to the National Assembly a Public Debt Annual Report which is part of the Report of the Treasury Account."

ARTICLE 38. This Executive Decree modifies Articles 1, 2, 5, 11, 12, and 15 and repeals Article 14 of Executive Decree No. 50 of June 26th, 2009.

ARTICLE 39. The present Executive Decree shall take effect on the day following its enactment.

TO BE PUBLISHED AND ENFORCED.
Given in Panama City on the 6th day of the month of September of the year two thousand and twelve (2012)
RICARDO MARTINELLI
President of the Republic
FRANK DE LIMA
Minister of Economy and Finance