



Republic of Panama – Investor Presentation

May 10, 2024

Key messages

1

Panama is a highly diversified, services-based economy (services account for more than 70% of GDP), **with key growing sectors.**

- **Diversification and dollarization of the economy** allows Panama to **withstand external shocks** better than other countries
- **Panama's transportation and logistics sector is world class**, and a growing services sector is contributing to overall economic growth while financial services, construction and commerce continue to expand
- Continued investments in transport, infrastructure and its geostrategic location **position Panama as a global logistics and trading hub**

2

Panama's economic growth remains robust and sustainable, generating formal jobs, reducing poverty, with one of the lowest inflation rate in the world (1.5% in 2023¹). In 2023, GDP grew by 7.3%. **The medium-term economic outlook is favorable**, and outperforms that of the Region

3

After the use of an efficient counter-cyclical fiscal policy in 2020, Panama committed to a strong fiscal consolidation path, as established by the Fiscal Social Responsibility Law

- **The countercyclical policy** used to weather the impact of the pandemic was **instrumental for Panama's economic recovery** (GDP grew by 15.8%)
- **Since then, Panama's fiscal discipline enabled it to meet the targets set by the fiscal rule** (fiscal deficit of 3% in 2023, target of 2% in 2024)

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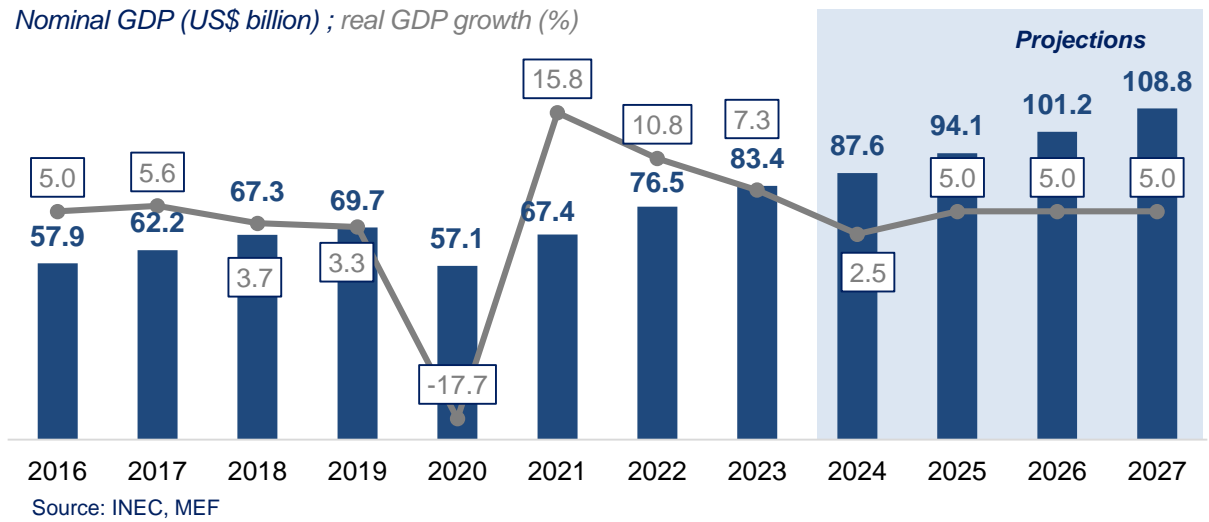
The government reform dynamics has maintained a favorable business environment, which enabled economic growth and private investments

- In particular, the government implemented game-changing reforms to prevent anti-money laundering and countering the financing of terrorism, which allowed us to **exit the FATF gray list in October 2023**
- **Panama is, and will continue to be, one of the main recipients of Foreign Direct Investment in the region**
- **The Colon Free Zone**, located at the Atlantic entrance of the Panama Canal, has developed into the largest duty-free zone in the Western Hemisphere in terms of commercial activity

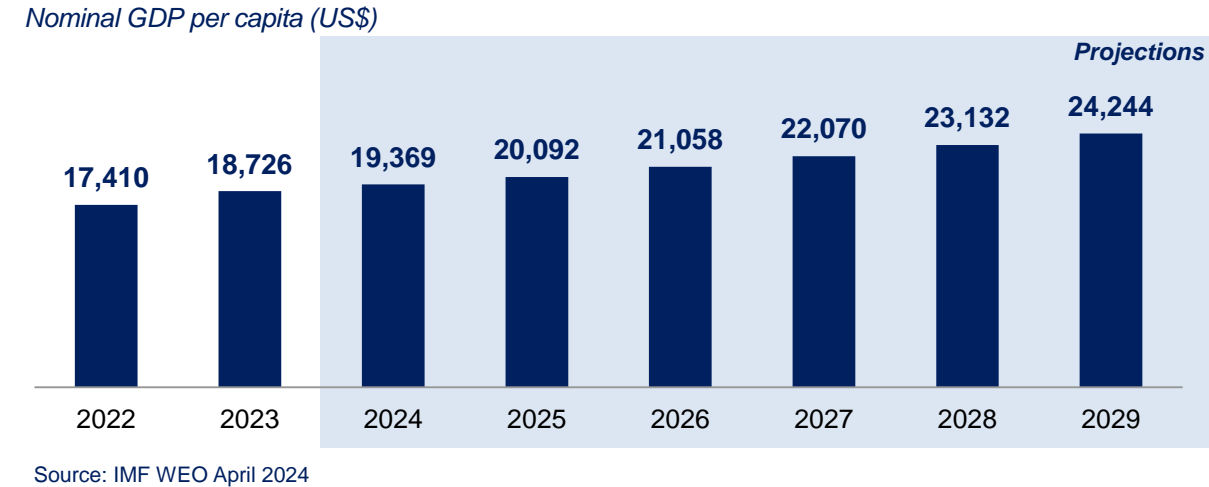
Panama's economic fundamentals are resilient to exogenous shocks

Panama continues to benefit from solid structural fundamentals, including strong GDP growth, low inflation, and high employment, with a favorable outlook

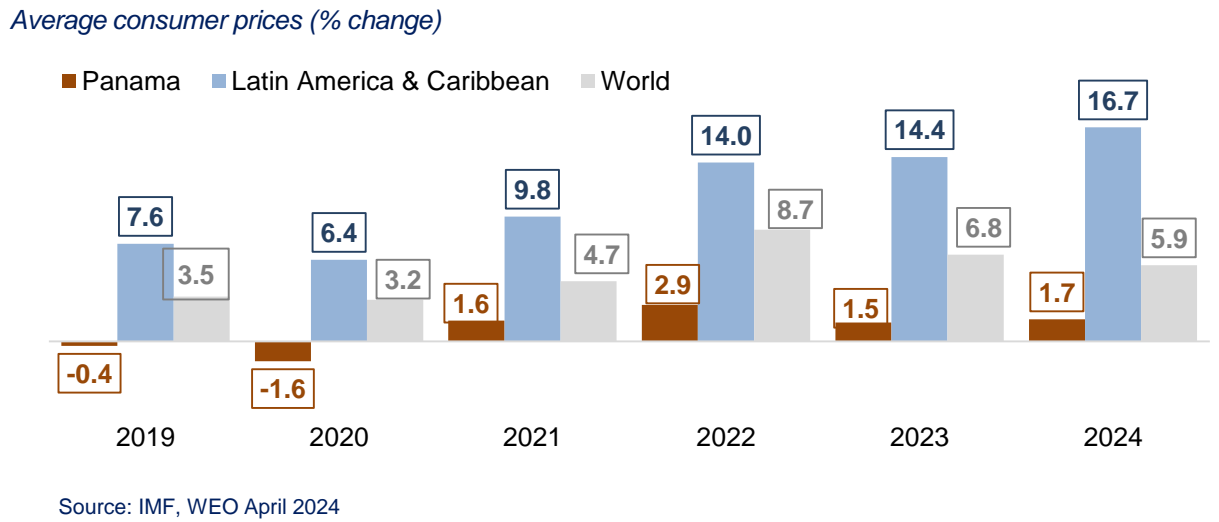
Panama has a track record of high and sustainable growth



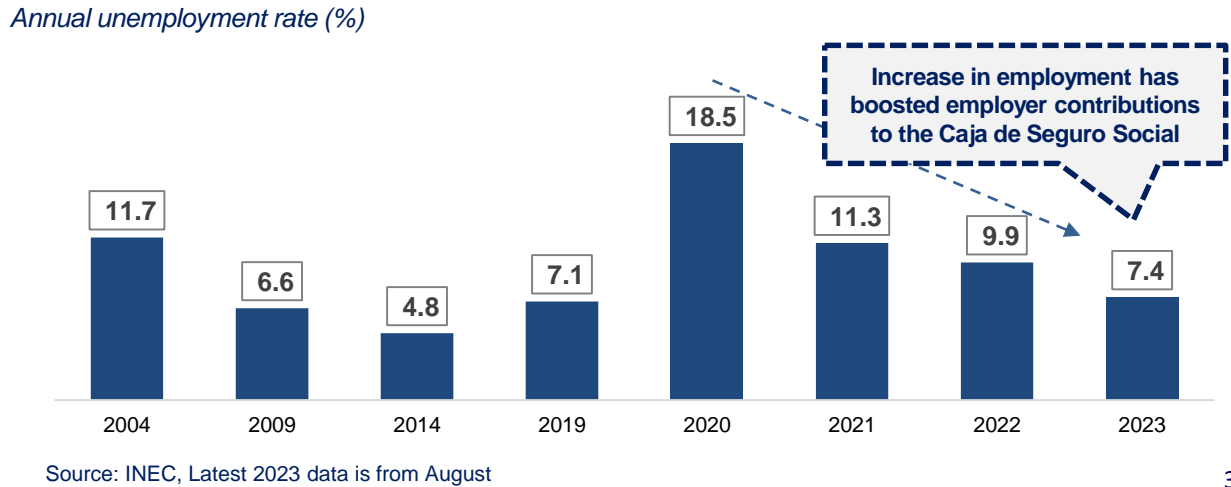
Panama's strong growth has supported rapid income convergence



Despite exogenous shocks, Panama's maintains exceptionally low inflation levels



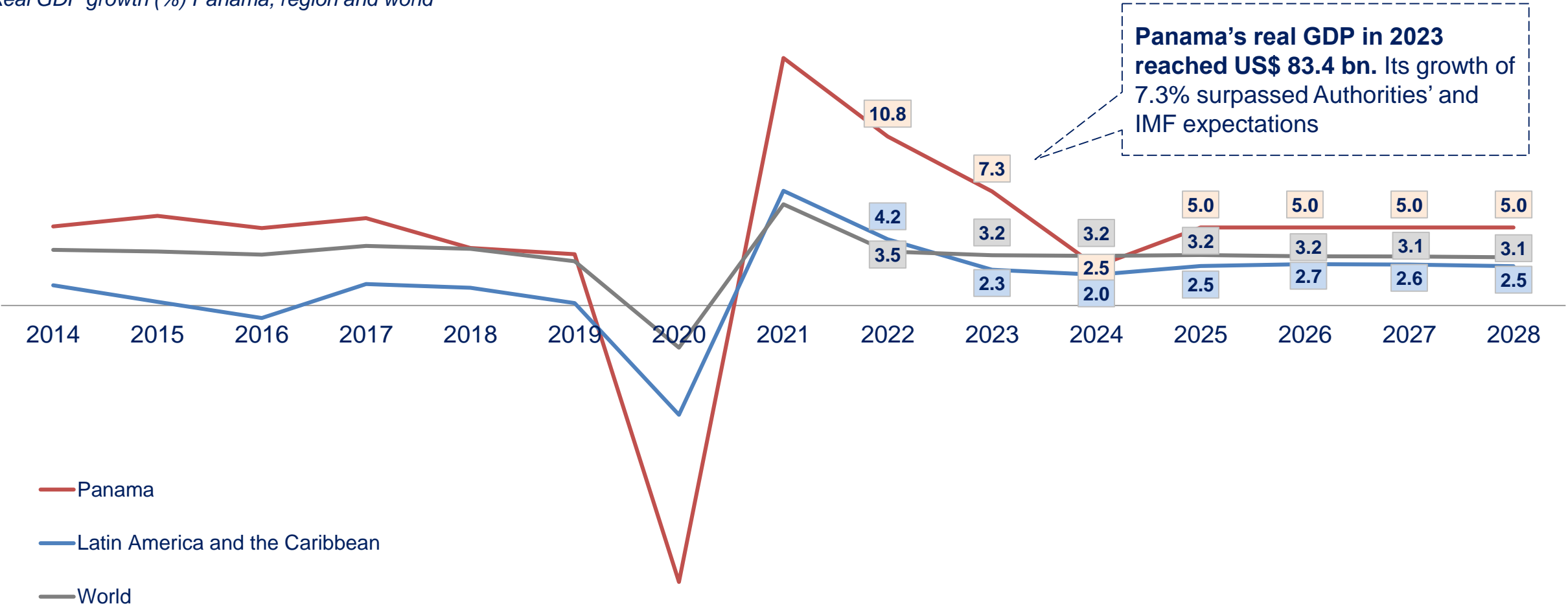
Panama's employment rate has been positively impacted by its strong economic growth



Panama's GDP growth consistently surpasses region and world's data

Excluding distortions from COVID in 2020, Panama's growth figures are systematically higher than the regional average


Real GDP growth (%) Panama, region and world



Panama's key economic drivers have rebounded post-pandemic


Panama's economic growth is driven by its diversified sectors, including services

Panama's dynamic economic growth is driven by a few key sectors ...




Construction

- A **key engine of growth**, benefiting from numerous large-scale public investment projects
- Key infrastructure developments** include the expansion of the Panama Canal, Tocumen Airport and others
- The **expansion of significant transport projects** such as the metro and various roads will help to continue boost growth




Logistics

- Competitive logistics hub with **access to the free trade zones in the Pacific and Atlantic Oceans**
- A maritime hub with the Panama Canal
- 5 world-class container ports, giving access to the Atlantic and Pacific
- A developing transportation network facilitating growth, including the Tocumen International Airport
- A hub for telecommunications



Commerce, Restaurants & Hotels

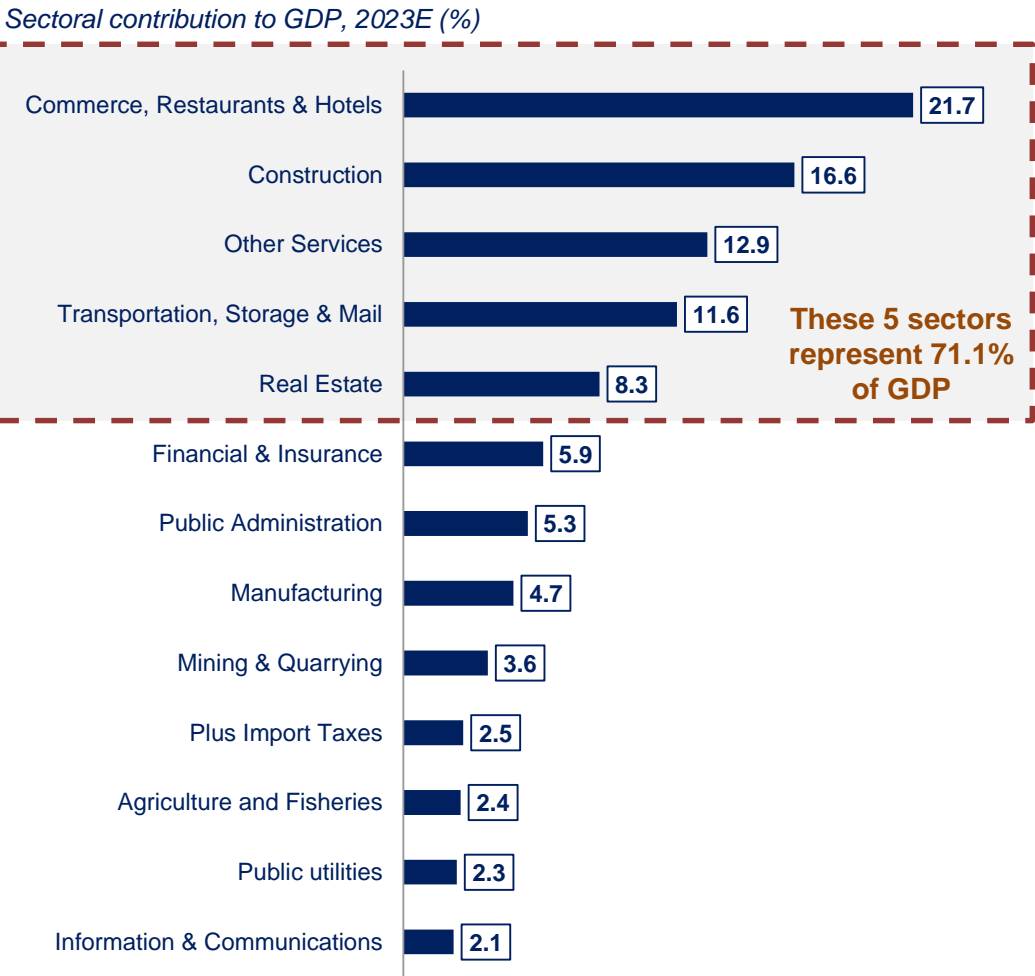
- Strong domestic business environment** boosted by a high level of GDP per capita
- Trade benefits include** access to the Colon Free Trade Zone
- Commerce, hotels and restaurants, **largest component of services, grew 38% in 2023**
- While the **tourism sector continues to grow** and has surpassed pre-pandemic levels: 17.8 million passengers in the Tocumen Airport in 2023.. Above pre-pandemic levels (16.6 million in 2019)



Financial & Insurance

- World class financial services sector with high capital ratios and strong credit quality
- The financial sector benefits from Canal activities and provides modern comprehensive financial solutions**
- The financial and insurance sector grew by 13% in 2023 compared to 2022, representing 5.9% of GDP in 2023. **Growth in the financial and insurance sector was attributable mainly to higher performance of the banking sector**

...in particular by commerce, construction and transport



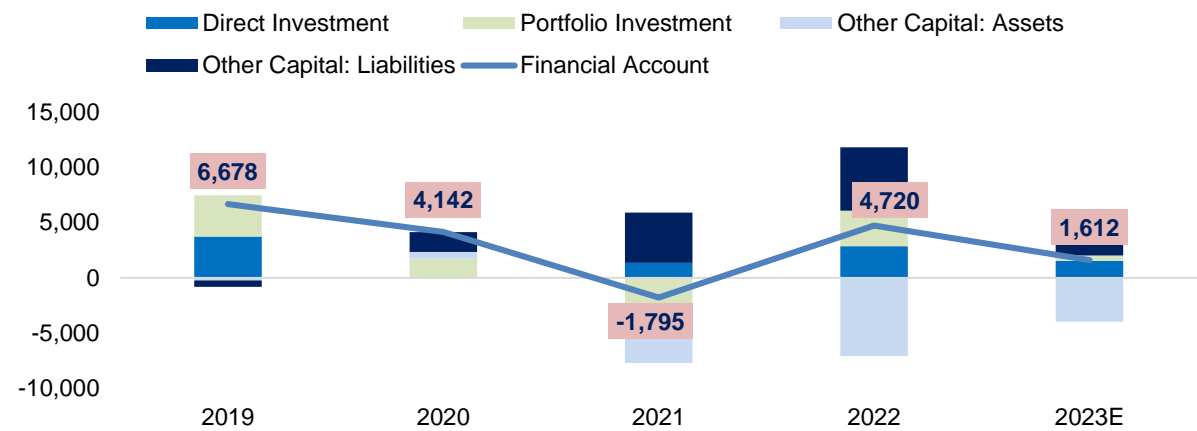
Source: INEC

Foreign Direct Investments (FDI) surpass those of the region

Panama’s strong pipeline of FDI flagship projects across the economy’s diverse sectors continues to support growth

Excluding 2021, Panama’s financial account consistently records a surplus

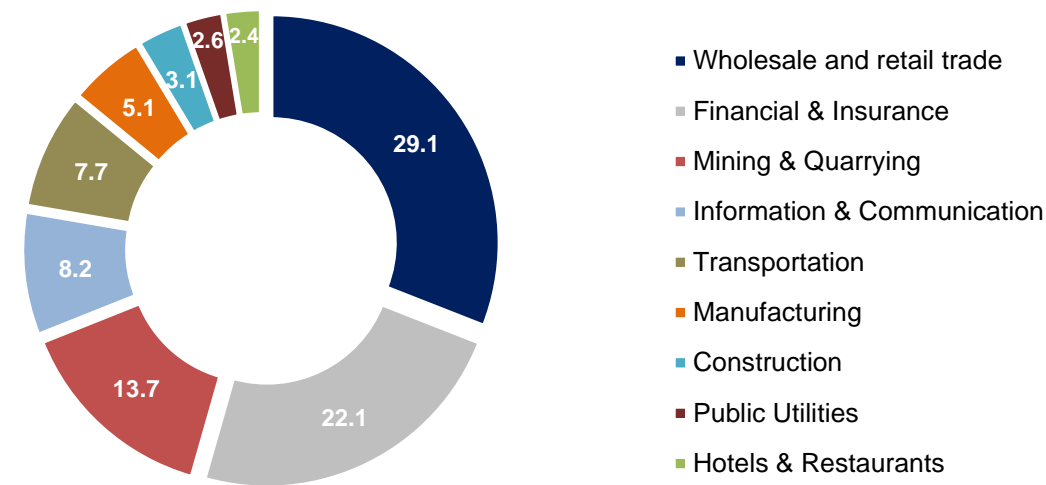
Financial account (millions of US\$)



Source: INEC

FDI flows across the sectors that make up Panama’s diversified economy

FDI by sector (thousands of US\$, 2022)



Source: INEC

2024 project pipeline

- ▶ On February 7, 2024, the Ministry of Public Works and the contractor Intervial Chile, S.A. signed a Public-Private Partnership contract to begin the rehabilitation, improvement and maintenance of the East Pan-American Highway. The company is expected invest U.S.\$282.7 million.
- ▶ On February 14, 2024, the Minister of Public Works confirmed that Mizuho Bank and Banistmo had agreed to finance the construction of the Fourth Bridge over the Panama Canal, which contemplates an investment of U.S.\$1.227 billion.
- ▶ On December 28, 2023, the National Commission of Free Trade Zones approved the establishment of three new companies in the Panapark, Astibal and Albrook free trade zones, with a combined investment of U.S.\$88.1 million.
- ▶ As of January 18, 2024, EnfraGen had become one of the largest renewable energy generators in Panama. EnfraGen recently acquired five new renewable energy operations, including three hydroelectric plants and two solar photovoltaic plants.

Panama implements strong policies towards strategic sectors and public investment

Panama's unique location, its strong growth and the efforts on business environment help drive investments



Investments in Infrastructure

- ▶ On June 1, 2021, President Laurentino Cortizo announced the launching of a new plan for the Integral Development of the Electricity Sector, in conjunction with the announcement construction of a natural gas plant by **InterEnergy Group and AES**.
- ▶ The construction of the plant represents an expected investment of **US\$1.0 billion** and is expected to provide 3,000 jobs. It is currently under construction and is expected to be operational in 2024.
- ▶ To help foment more FDI, Executive Decree No. 722 of October 15, 2020, modified the law in which the sub-category of **Permanent Residency for Qualified Investors** was created.
- ▶ The National Secretariat of Science, Technology and Innovation (SENACYT) announced on February 15, 2022 that a **regional center for innovation in vaccines and biopharma (CRIVB)** was approved with an **initial investment of US\$3.5 million**. Its purpose is to provide the country with the capacity to produce its own vaccines, monoclonal antibodies and recombinant proteins.



Investments in Telecommunications

- ▶ On July 12, 2023, the **Panama Digital Gateway** was inaugurated.
- ▶ The structure serves as a **5,500 square meter data center** and cable landing center. Partners include **Sparkle** and **Trans Ocean Network**.
- ▶ The US satellite company, **Starlink** began offering services in May of 2023.
- ▶ Telecom provider, **TIGO**, announced in January of 2023 that it would invest **US\$100 million** to improve and expand its internet, television and cellphone networks. As of the third quarter financial statements, it had reported US\$60.8 million in fixed investments.



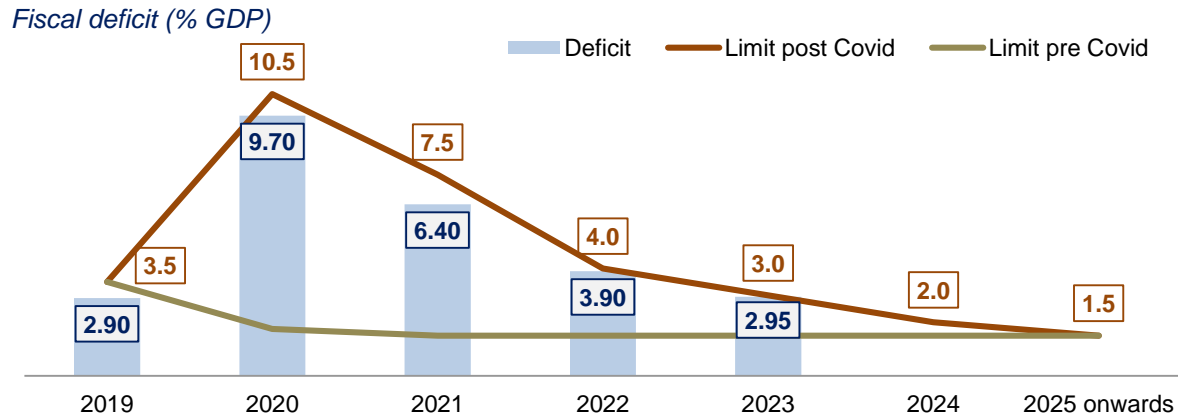
Investments in Tourism

- ▶ The Cruise season began on September 1, 2023, and the Panama Maritime Authority stated that the **Panama Cruise Ship Terminal** had 49 reservations for the season, of which 31 are in-transit and 18 as Home Base.
- ▶ An expected **69,633 passengers** on the in-transit ships and 12,974 passengers through the home base service.
- ▶ According to the PMA, each passenger spends approximately US\$100 in tours and consumes approximately US\$350 in food and goods.
- ▶ In February of 2022, **Royal Caribbean** announced it would return to Latin America with cruises from Panama in the 2023-2024 season.

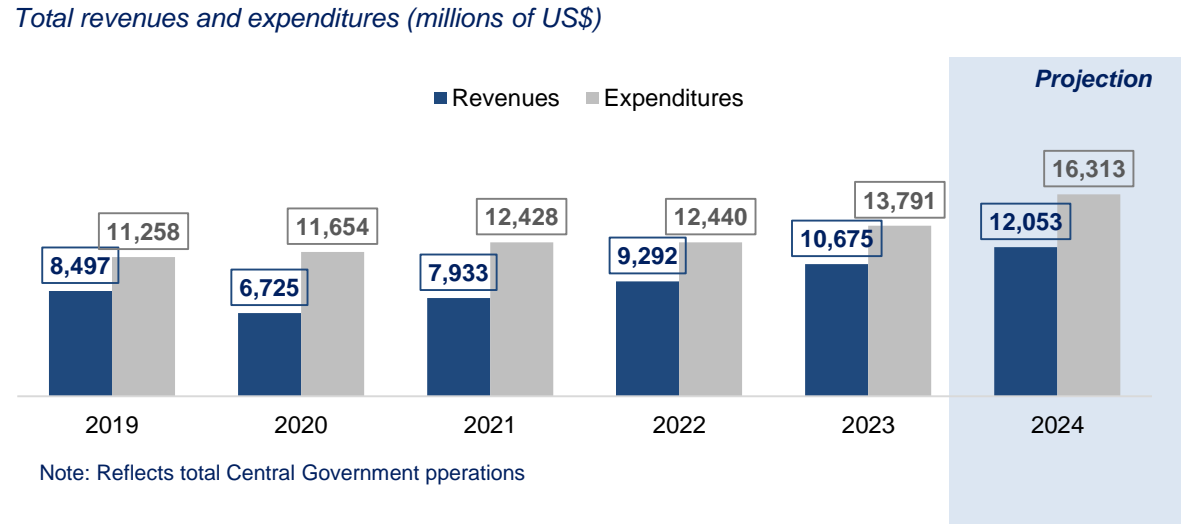
Strong commitment to fiscal consolidation yields results

Panama’s commitment to strengthening public finances along with a track record of adhering to the fiscal rule and maintaining sustainable debt levels is notable

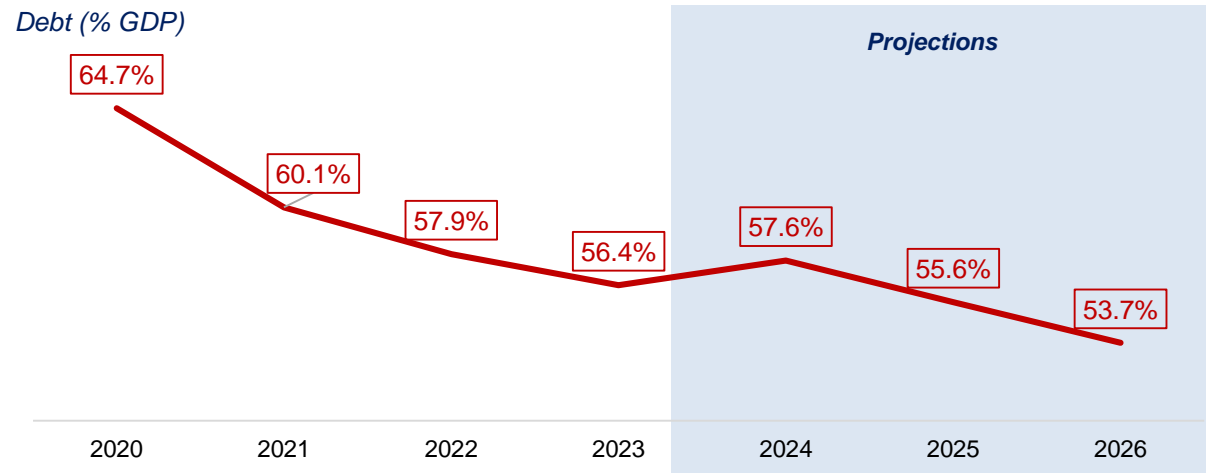
Fiscal consolidation efforts since 2021 have yielded a reduction in the deficit



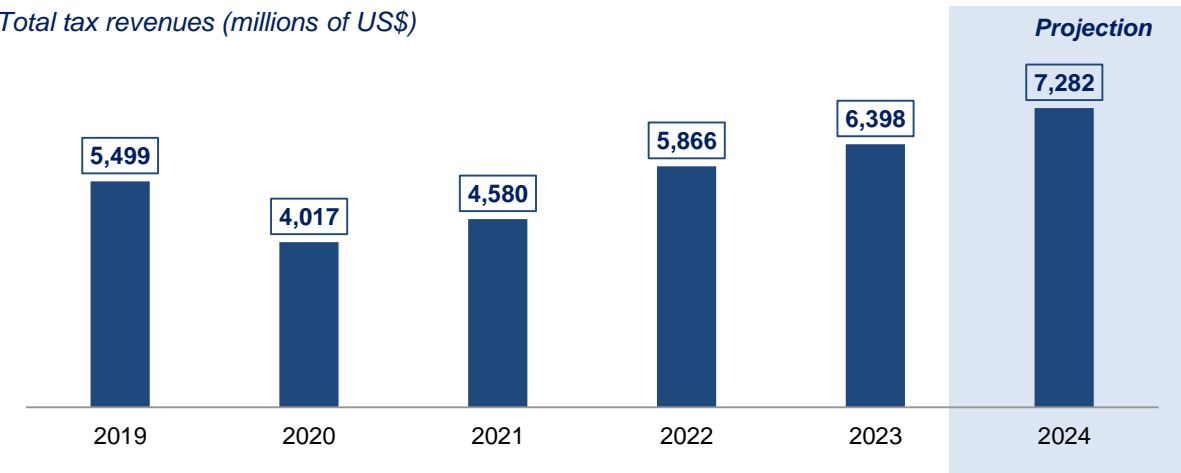
Rise in expenditures, due to increased investment, are met with increased revenues



Debt to GDP has been on a downward trajectory since the pandemic



Tax revenues for central government continue to grow




Source: MEF

Reforms reinforce Panama's fiscal consolidation


Panama distinguishes itself by its strong reformist dynamic in modernizing its public administration, specifically with relation to budgeting

Modernisation of budget management will enable Panama to collect record current income in 2024




Electronic invoicing

- ▶ Tax compliance increases from 65% to 92%.
- ▶ In 2024, current revenues from the Central Government is expected to reach about **US\$ 11.5 billion**



New sources of income


- ▶ The Tax on the Transfer of Movable Goods and Services (ITBMS) aims to rebalance taxation of the digital economy versus other sectors.
- ▶ Revenue could increase between US\$ 80 and US\$ 100 million.



Fight against tax evasion

- ▶ Increased surveillance of large companies by the new Large Taxpayers Unit.
- ▶ New state-of-the-art scanners in customs controls.

An overall effort on expenditure



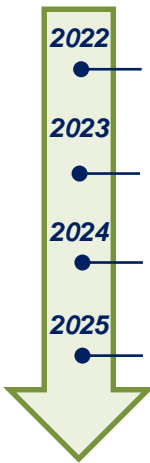
Elimination of various subsidies

- ▶ **Fuel and Digital Voucher subsidies were eliminated** in the 2024 Budget.
- ▶ The cost of the Digital Voucher was **US\$ 1.183bn in 2021, US\$ 411m in 2022 and US\$ 339m in 2023.** The cost of the fuel subsidy was **US\$ 377m in 2023.**

Results Based Budgeting (RBB) at the heart of the modernization of budgetary management

- 1 **Ensure more strategic and long-term management of policy and budget, allowing for greater accountability of results.**
- 2 **Moving from a logic of means, or costs, to a logic of results, which prioritises the population's needs**
- 3 **Budgeting by public policy, informed by performance, allowing the quality of public spending to be assessed.**
- 4 **Achieving coherence between the structuring of program and their objectives.**

Implementation of results based budgeting is progressing with UNDP collaboration



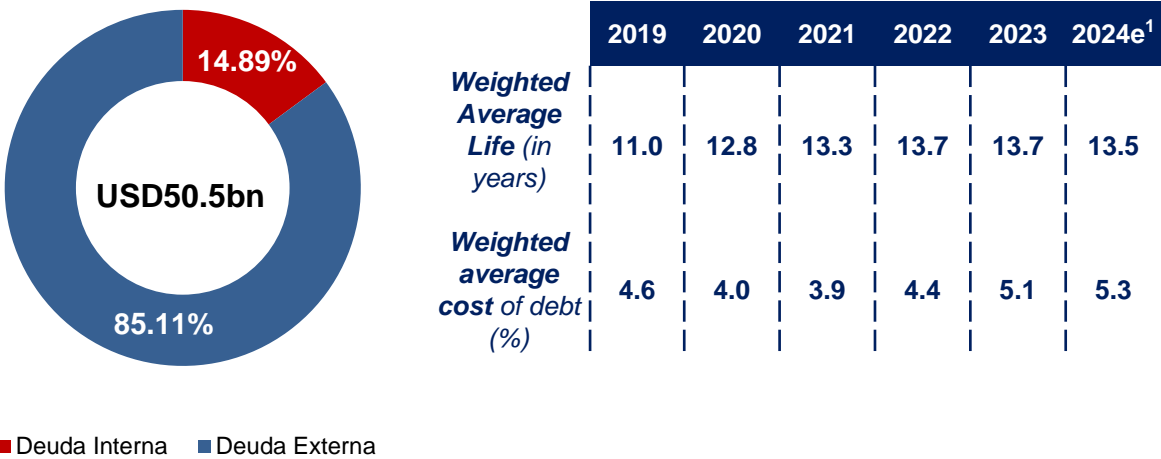
- 2022 **First phase: 12 institutions** participate in the pilot, enabling **5% of the 2023 Budget** to be elaborated under this approach.
- 2023 **Second phase: 23 new institutions** are added to the pilot plan, elaborate their Budget under this approach, representing 37% of the total Budget.
- 2024 **Third phase: 15 further entities** participate, reaching a total of 50 government institutions involved, representing 53.2% of the total Budget.
- 2025 **Final phase: All government entities** elaborate their Budget under RBB.

Panama has an active and prudent public debt management strategy

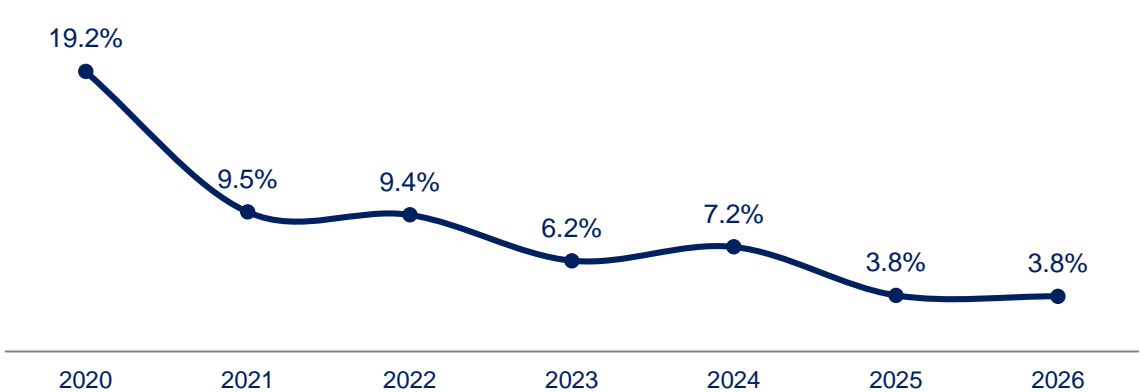
Panama has a prudent and diversified debt management strategy, which has led to an increase in the average maturity of debt

The characteristics of Panama's debt stock illustrate the prudent strategy in place

Composition of debt as of April 2024 (% of total)



Annual change in government debt (in %)

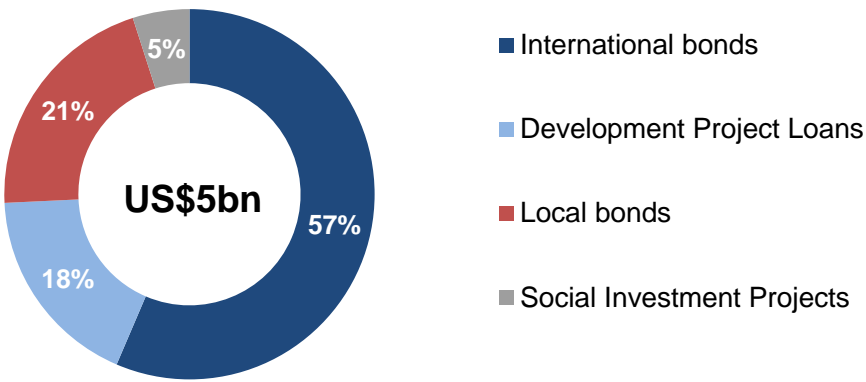


Source: MEF

Note 1: as of April 2024

Panama relies on four main types of financing sources for 2024

Estimated sources of financing for 2024



February 2024's successful Global Bond issuance

- With a **3.1bn US\$ issuance**, Panama showcased **remarkable resilience** by achieving the largest bond offering ever raised by the country on the international capital markets
- This issuance received **impressive backing from investors with an oversubscription over 6x**, reflected in the largest order book in Panama's history (over **19bn US\$ in peak orders**)
- The transaction marked the **inaugural sovereign transaction** of Central America and the Caribbean for the year 2024
- With a 7-year, 14-year and 33-year tranches, the issuance effectively **optimized Panama's debt maturity profile**
- Considering the current market conditions, the issuance managed to issue at a **contained pricing** (7.75% area ±12.5 bps, 8.25% ±12.5 bps and 8.50% ±12.5 bps), with an **aggressive tightening of 25-37.5 bps**

The 2024 Budget illustrates the commitment for fiscal consolidation

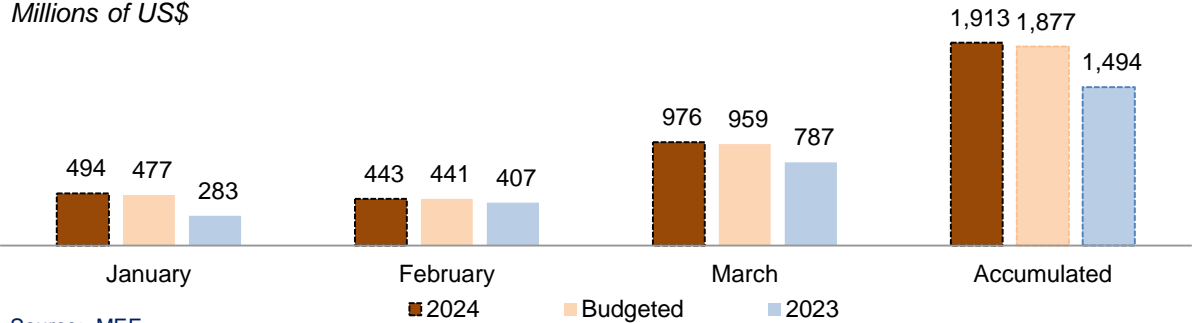
Structural budget reform will increase efficiency of spending, rationalize expenditure, and continue to boost revenue

The General Government budget for 2024 is based on key strategic objectives

- **Meet the 2% deficit target** established in the LRFS for 2024.
- **Facilitate an effective and efficient transition of power** between two administrations.
- **Guarantee the equitable allocation of resources**, with each administration managing 50% of the Operating Expenses.
- **Comply with the commitments established by Special Salary Laws**, the allocation of **7% of GDP to the Education sector**, the entire budget required by the Judiciary, the Public Prosecutor's Office, the Electoral Tribunal, the Electoral Prosecutor's Office and the entities supervising compliance with the FATF, European Union and OECD lists.
- Comply with contractual obligations for public funding, including Multilateral Organisations.
- Transition from 35 to 50 institutions with a **results-based budget** between 2023 and 2024, representing 53% of the state budget.

Budgetary execution of Central Government current revenue to date

Millions of US\$



Budgeted revenue and expenditure of the public sector for 2024

Millions of US\$

Revenue of the Public Sector for 2024	
Detail	Amount
Tax Revenue	12 272
Non-tax Revenue	7 473
Equity Resources	2 789
Financing	8 156
TOTAL	30 690

Main expenditure lines of SPNF for 2024	
Detail	Amount
Personnel Services	6 915
Non-Personnel Services	1 260
Materials and Supplies	1 131
Machinery and Equipment	16
Financial Investment	36
Current Transfers	3 913
Global Assignments	58
Education Insurance	52
Interest service	2 774
Investment	6 300
TOTAL	22 455

Source: MEF, Presupuesto 2024

Panamanian banking system demonstrates proven solidity

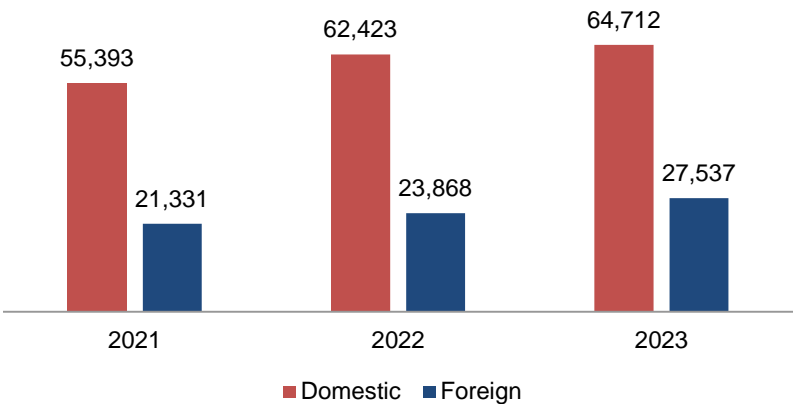
The financial system soundness and resilience was demonstrated during the COVID-19 pandemic, as it remained well capitalized, liquid and credit quality is strong

International & national banking systems remain strong and resilient, in the face of market volatility

- 2 official banks, 39 private sector general license banks, 13 international license banks and 9 representative offices constitute the banking sector
- Total assets were approximately U.S.\$174.53 billion, 5.3% higher than December 2022 figures
- The domestic loan portfolio amounted to USD 60.61 billion, representing a 3.4% increase compared to the end of 2022
- Deposits reached approximately U.S.\$105.12 billion, 6.8% higher YoY
- The loan and deposit portfolios remain balanced between foreign and domestic participation
- The banking system remains well capitalized with high liquidity ratios beyond those required by legislation
- The capital adequacy ratio of the banking system sits at 15.34%, above the legal requirement of 8.0%
- Liquidity was at 57.8%, above the legal requirement of 30.0%

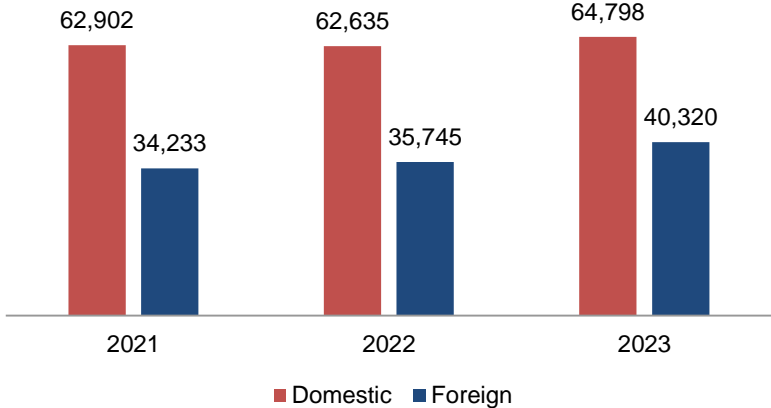
Loan Portfolio

Total amount of domestic and foreign loans (millions of US\$)

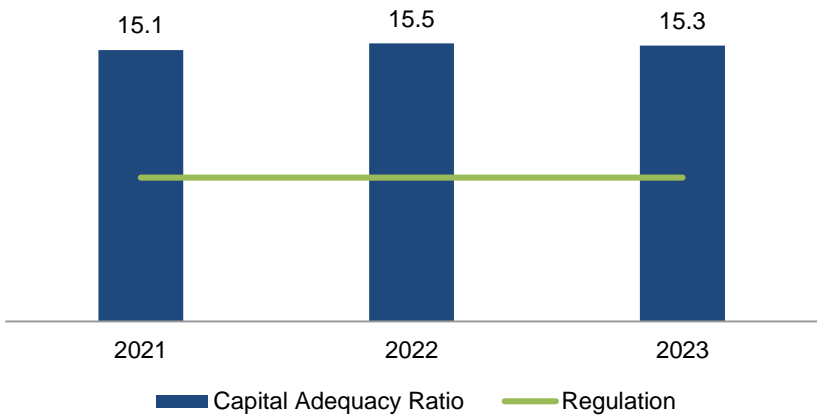


Deposits

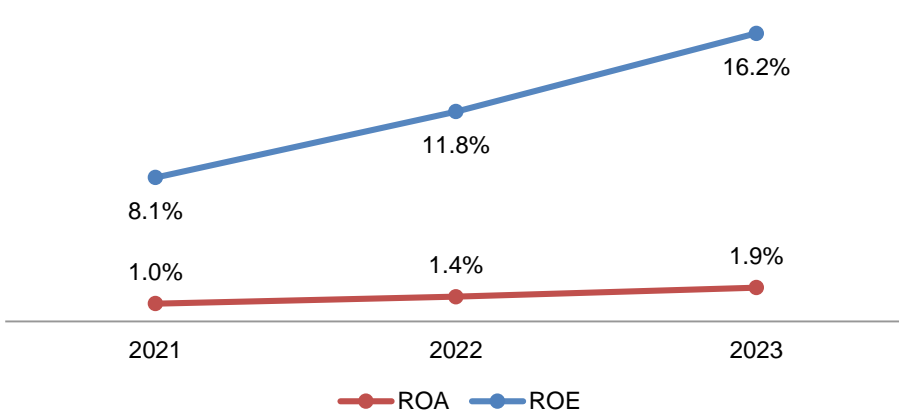
Total amount of domestic and foreign deposits (millions of US\$)



Capital Adequacy Ratio (%)



Return on Equity (ROE) & Return on Assets (ROA)



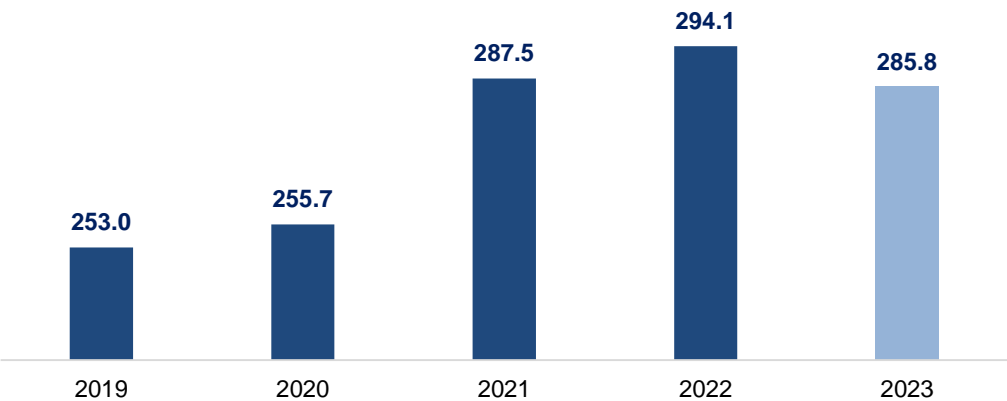
Source: Superintendencia de Bancos de Panama
Note: All figures date of December 2023

The Panama Canal provides a steady revenue source

Growth in the transportation, storage and mail sector was primarily due to operations in the Panama Canal

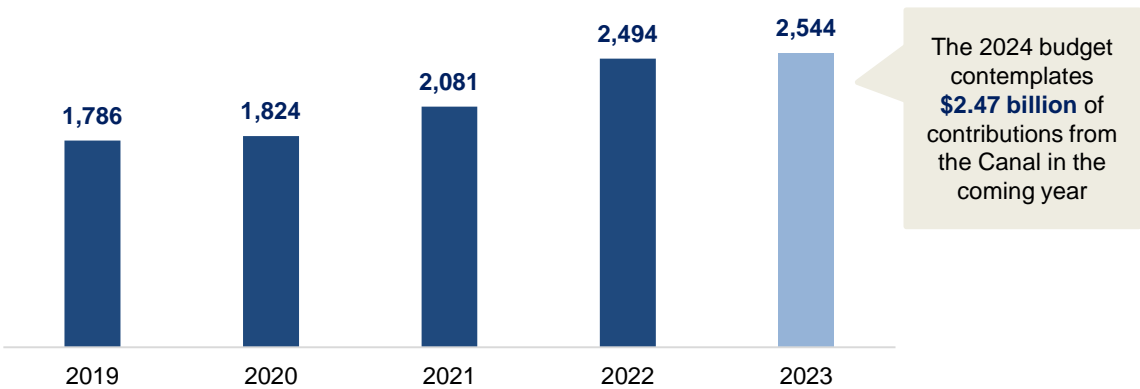
The Panama Canal represents 3% of global maritime trade

Cargo volume (millions of long tons)



Panama Canal contributions to the Government continue to increase

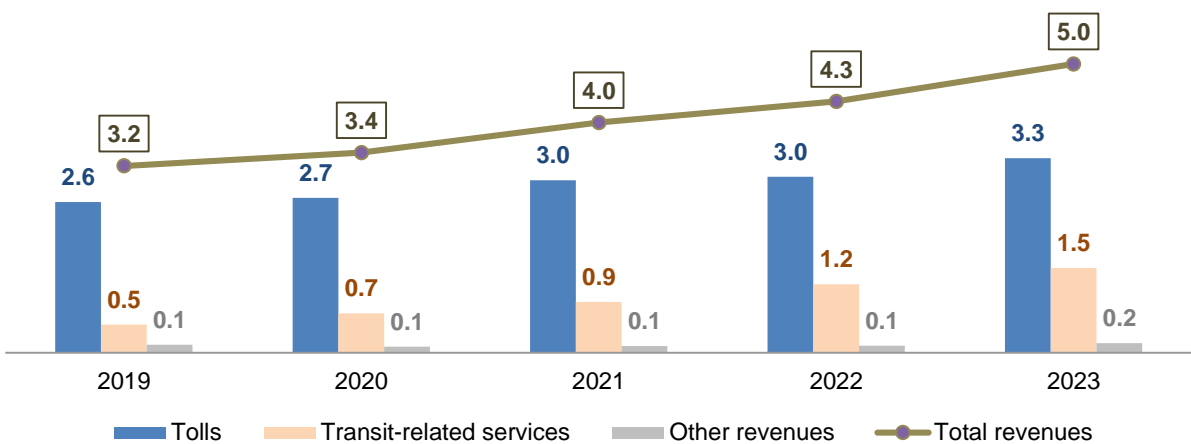
Direct Contribution to the Government (millions US\$)



Source: ACP
Note: The ACP's fiscal year runs from October to September

The Panama Canal continues to grow in revenues year-on-year

Total revenues (billions US\$)



Panama Canal Authority's water conservation measures in response to less rainfall

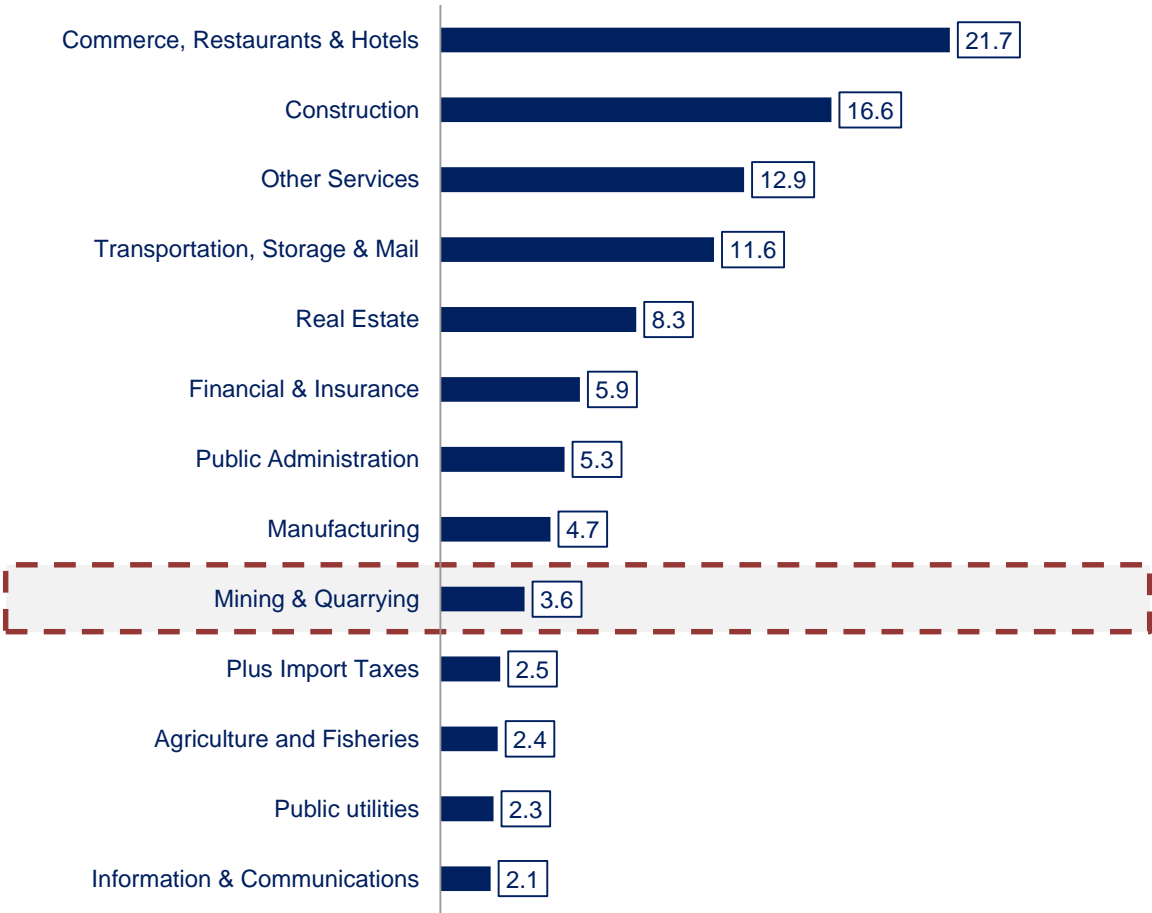
- The ACP is **implementing strategies to mitigate the effects of climatic changes on the Canal, including:**
 - (i) Use of a cross-locking process in the Panamax locks to combine water from both sides of a lock
 - (ii) Schedule of transits to be able to reuse the same amount of water for multiple transits
 - (iii) Limit of the number of daily transits
 - (iv) Reduce the draft in the locks
- The ACP is constantly adapting to water levels: as of May 16, the number of daily transits will be increased from 17 to 24 in the Panamax locks and as of June 1 the number of daily transits will be increased from 7 to 8 in the Neopanamax locks
- Since November 2023, the ACP holds auctions for regular and Panamax vessels that wait 10 days or more in queue to cross the Canal
- Two proposals were presented to the Executive Branch to (i) eliminate the legal restriction on the construction of new reservoirs, and (ii) redefine the limits of the Panama Canal Watershed to include the contiguous basin of the Río Indio
- The improvement of traffic expected throughout the year should compensate for the loss in revenues

The closure of Minera Panamá has a limited impact on the economy

The Government has proactively put measures in place to ensure an orderly and strategic ceasing of operations

The share of mining in Panama’s diversified economy is limited

Sectoral contribution to Real GDP, accumulated 2023 (%)



Economic repercussions are limited

- The Mining and Quarrying sector represents **only 3.6% of 2023 GDP** highlighting the ceasing of operations **is not expected** to have a **major impact** on the economy
- Funds from the mine were deposited into a segregated account when received and were thereafter incorporated into the Fiscal Balance
- Panama has a diversified economy, where **no sector represents more than 22% of the GDP**. This allows for broad opportunities of economic development without relying on a single activity
- As the ninth largest sector, mining is not a top contributor to GDP for Panama given it is a **diversified economy focused on higher valued added sectors**. Furthermore, the mine had already reached the peak of its productivity

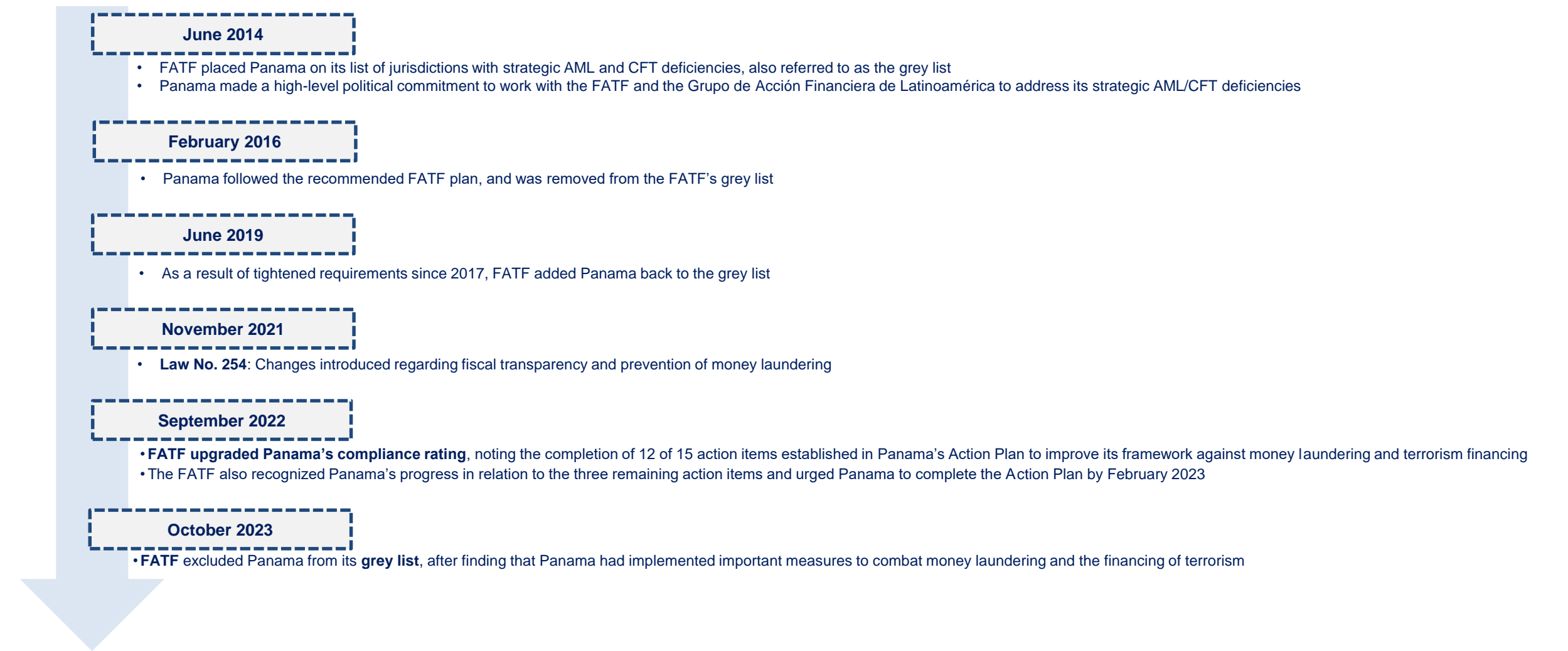
Proactive actions taken by the Government

- **The contract was declared unconstitutional by the Supreme Court of Justice** and the mine has since closed, under a plan that includes:
 - (i) an environmental plan for the orderly and definitive closure of the mine
 - (ii) a strategy for the country’s defense against any lawsuits and international arbitrations
 - (iii) Mitigation measures for the substitution of metallic mining in Panama’s GDP
- **An Interinstitutional Commission responsible for coordinating the action plan for the orderly and definitive closure of the Cobre Panama oversee the strategic plan**, led by the Ministry of Commerce and Industries
- The authorities also benefit from the **support of the Chile Government** displaying a strong expertise in the mining sector

Reforms strengthening the institutional framework achieve results

The reforms allowed Panama to be removed from the Grey List in October 2023 and from the EU’s list of high-risk third countries in March 2024, with important benefits expected for the country

A persistent effort toward the successful removal from the Grey list





Thank you