

Panama's main economic activities are financial services, tourism and logistics. Although the economy grew by 8.4 percent in 2013, this was still below the double-digit rates of growth achieved in the previous 3 years. Gross domestic product (GDP) in 2012 was 36.2 billion US dollars (US\$) and is expected to increase by 7.5 percent in 2014, driven by construction, a rate that will decelerate from 2015 as large investment projects reach fruition.

Panama

High Growth Markets country profile

Country overview

Geography and climate

- **Location:** Central America, bordering both the Caribbean Sea and the North Pacific Ocean, between Colombia and Costa Rica
- **Climate:** a tropical maritime climate characterized by hot, humid, cloudy weather; prolonged rainy season (May to January) and a short dry season (January to May)
- **Regions:** 9 provinces and 3 indigenous territories
- **Major cities:** Panama City (1.35 million) (2009)

Political system

- **Type of government:** constitutional democracy
- **Capital:** Panama City

Population, language and religion

- **Population:** 3.8 million
- **Urban population:** 75%
- **Demographics:** 0–14 years: 27.3%; 15–64 years: 65.1%; 65 years and over: 7.6%
- **Official language:** Spanish
- **Prominent religions:** Roman Catholic and Protestant

Currency and central banking

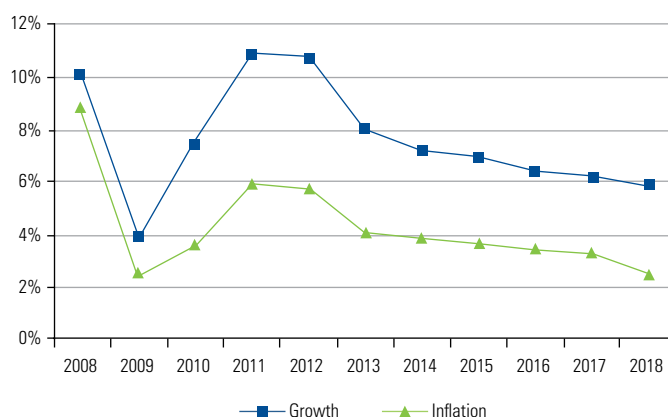
- **Local currency:** Panamanian Balboa (PAB)
- **Exchange rate:** 1 PAB = 0.9811 US dollars (US\$)
- **Foreign exchange reserves:** US\$2.67 billion
- **Total debt (2013):** external: US\$15.22 billion; internal public debt: 39.8% of GDP

Business environment

Economic environment

- **GDP in 2012 was US\$36.2 billion** and is set to grow by 7.5 percent in 2014, driven by construction. However, this rate will ease from 2015 as large investment projects are concluded.
- **Foreign direct investment (FDI) (billions):** Net inflows: US\$2.76 (2011); US\$3.02 (2012)
- **Exports free on board (FOB) (billions):** US\$19.0 (2012); US\$17.5 (2013); US\$23.0 (2018 forecast)
- **Imports FOB (billions):** US\$24.9 (2012); US\$24.3 (2013); US\$33.0 (2018 forecast)
- **Sector breakdown:** service: 78.4%; industrial: 17.9%; agriculture: 3.7% (2013 estimate)
- **Trade balance (billions):** deficit of US\$4.7 (2012); US\$4.8 (2013); US\$4.6 (2018 forecast)
- **Stock exchanges:** Bolsa de Valores de Panamá

GDP growth and inflation (average consumer price index (CPI))



Source: International Monetary Fund, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** Policy remains focused on large capital investment projects, including the expansion of the Panama Canal and the metro rail system in the capital, Panama City. Infrastructure upgrades form part of wider plans to develop Panama into a regional logistical hub and to increase its capacity for reassembly operations, in order to sustain employment levels when infrastructure development starts to slow. The gap between living standards in Panama City and the rest of the country remains significant and could widen further, as infrastructure spending has come at the expense of investment in agriculture (the main employer outside of the capital). In response, the government (the PRD – Partido Revolucionario Democrático) also wants to boost agriculture through measures such as credits.
- **Competition policy:** Panama strongly encourages free trade and competition. Its law forbids price fixing, market division and limitation, and collusion in public bidding and auctions, along with economic concentration that diminishes or restricts free competition. Panama maintains price controls for liquid combustibles.
- **FDI policy:** Panama welcomes foreign investors and strives to be an international service center. The tax structure is favorable to inward investment, and generous incentives are available for tourism, manufacturing operations and other sectors. The main obstacles for FDI are government bureaucracy, strict labor laws and a complicated investment registration process. In part to address the complexity of the registration process, the government established a new online system in January 2007 to facilitate business creation and promote transparency.
- **Foreign trade and exchange controls:** Panama generally maintains a liberal trade policy, with relatively low tariffs and few non-tariff barriers. Exports subject to taxes require an export authorization from the Ministry of Finance. There are no legal exchange controls in Panama, and businesses operating currency exchanges do not need a license.
- **Taxes:** Corporate tax rates in Panama are low, and tax 'morality' is fairly high by Latin American standards. Panama does not tax income from non-Panamanian sources, making it a preferred base for holding and sales operations. Generous tax incentives are available, mainly for export-related concerns and investments in tourism. A company (or branch of a foreign company) in Panama is liable for tax on both Panamanian-sourced and export income, but not on non-Panamanian income. 2013 corporate income tax was 25 percent. A special tax rate of 27.5 percent for fiscal years 2012 and 2013, and 25 percent beginning in 2014, applies to companies engaged in: generation/distribution of electricity; telecommunications; cement production; insurance and reinsurance; gambling and casinos; financial services; mining; and banking. There is no income tax on capital gains from the sale of government securities. Interest paid to a foreign lender is subject to 6 percent withholding.

KPMG in Panama

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Source: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; IMF, 2014; Stock Exchange

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