Panama: the tiger of the Americas

After more than 100 years of republican history, Panama consolidated itself as an international financial centre through a flourishing banking system, the existence of the largest duty-free zone in the region, a thriving stock market, corporate principles inspired in US legislation and a shipping registry which today represents the largest flag of convenience in the world.

The dollar

Panama is a wholly "dollarised" country. Currency stability helped to stave off the worst effects of recent regional economic crises, as the country has no exchange controls and no central bank.

The supply of dollars is managed by the Banco Nacional de Panama and the Federal Reserve Bank of New York through a monetary treaty, which dates back to the beginning of the republic.

Panama's history

The political instability of the 1980s had a negative impact on the country's economy, but it seems that after four democratically elected governments Panama may have just found the right formula to re-invent itself. In the last 15 years, the introduction of new regulations in the banking system, sound fiscal policies and significant structural reforms have helped to accelerate economic growth.

Between 1990 and 2004, Panama was the second-fastest-growing economy in Latin America. Its GDP per capita, $4,400 in 2004, is high by regional standards. Growth has also been facilitated by the privatisation of public enterprises, transfer of administration of the Panama Canal from the US, establishment of special economic zones and the use of concessions to promote investments from local and international investors in infrastructure.

Expanding services

Given its strategic location in the Americas, Panama's transport, tourism and telecommunication industries have significantly expanded exports of services. Needless to say that the creation of the Superintendency of Banks in 1998 helped enormously to modernise the regulatory and supervisory framework for banking, which was observed positively by the IMF's 2001 assessment, showing a high level of observance with the Basel Core Principles for banking supervision.

"Panama is expected to emerge as the fastest-growing economy in Latin America in 2007"

Panama has also invested substantial resources to put in place cross-border arrangements to facilitate information-sharing for financial sector regulation, and the Superintendency of Banks and the National Securities Commission have a good record of cross-border cooperation.

Fast-growing economy

Panama was expected to emerge as the fastest-growing economy in Latin America in 2007.

Following real GDP growth of 9.4% in 2007, the Economist Intelligence Unit expects continued favourable external conditions and increased investment related to the Canal expansion to support annual average growth of 9.3% in 2008–09, despite a marked slowing of US growth. It is expected that inflation will remain above trend but will fall to 3.2% by the end of 2009, provided that oil prices do not overshoot expectations.

Although Central America has a large stock of non-standard and non-tradeable debt, Panama has made some improvements in the strategy to manage its public debt in the last two years.

The country is now trying to improve business governance and streamline the excessive regulation for the establishment businesses and multinationals through the introduction of Law No 41 of 2007. The new law has been designed to provide a simple approach to the establishment of multinationals and provide tax incentives.

The following major investments are taking place in Panama and due to their impact in the local economy are being discussed.

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Expansion of the Panama Canal

The Canal is becoming integrated to the economy and is providing a substantial amount of public revenues. It has been estimated that the income from transit tolls and dividends has increased more than five times since 1999 to a staggering figure of $569.7 million last year.

Although the revenues have risen, the number of employees has been reduced by 7% following a private administration approach from the Panama Canal Authority.

Activities from other maritime industries have been created around the Canal activities. It is expected that the pace of this development will be accelerated for 2008, as the plans for the expansion of the Canal are further advanced.

The Canal expansion will not only benefit from direct income but will also stimulate the rest of the conglomerate investments, which are expected to increase to $1.1 billion a year.

New oil refinery

Qatar Petroleum International, Occidental Midstream Projects Ltd (a subsidiary of Occidental Petroleum) and the

Panamanian government have signed a memorandum of agreement to develop an oil refinery in Panama with a design capacity of 350,000 barrels of crude oil per day, to satisfy the growing demand for fuel and oil derivatives in the area. It has been a positive achievement, as it maximises the value of the country's location for the energy sector and positions Panama on the map of petroleum companies with good track records.

Plans to transform Balboa into the largest port in Latin America

The growth in container traffic has offered the opportunity to new port operators. The ports of Balboa on the Pacific and Cristobal on the Caribbean were sold to the Panama Ports Company – a subsidiary of Hutchinson Port Holdings – in the mid-1990s.

It is expected that investments over $1.5 billion in the next eight years will more than double the country port's capacity. These investments include a $200 million for expansions to the northern Atlantic port of Balboa.

The three phases of the Balboa expansion include the purchase of new cranes, extension of the deepwater shoreline from 350m to 1,500m, expansion of the container storage space from 8.4ha to 50ha, and the addition of nine post-Panamax cranes, bringing the ports total to 12.

The Ministry of Commerce revealed that Singapore port operation PSA will build a new container terminal at Rodman port, which should not interfere with the National Port Authority project to develop a $600 million container port on 300ha in the Farfan area.

The "Howard Project" – creation of one of the largest development projects in the region

The Panamanian government has given the right to build a new mini-city on the banks of the Panama Canal to London & Regional Properties, a British-owned private developer. The $700 million project promises the construction of one of the largest development projects in the world, covering 2,750 acres. The site will become part of a massive new trading hub, known as a "multimodal port", which will use the airstrip, the Canal and vast depots to store all manner of goods that pass through the Canal. Singapore Airlines struck a deal to refurbish its Asian fleet of aircraft on this site. The area is also expected to provide new homes, hotels and a golf course and science park, all generating at least 20,000 jobs.

Real estate property boom

The Panama real estate market is in the middle of a huge explosion. The property market is receiving intense international interest from property developers and investors. Real estate experts have predicted an intense period of growth, which could last for another decade.

> ***"The government has given the right to build a new mini-city on the banks of the Panama Canal"***

A study by Prima Panama, a local real estate marketing company, confirmed the existence of 107 building projects under construction in 12 different neighbourhoods in Panama City. The total value of these projects is estimated at $3.17 billion. The new developments consist mostly of new high-rise apartments and resort complexes that are in the planning stage or under construction.

The investors are mostly of local and foreign capital, including US and European companies and investors such as Donald Trump and the Spanish Group Olloqui, which is planning to build the tallest skyscraper in Latin America, Palacio de la Bahia on the Bay of Panama. The construction works for this building have already started.

The expected buyers of these properties are mainly US, Canadian and European expatriates who will have a second/holiday home in Panama. The demand for property received an added boost from the positive results of the referendum for the expansion of the Panama Canal.

Establishment of the UN regional headquarters for Latin America and the Caribbean

Panama was chosen to become the UN's regional headquarters for Latin America and the Caribbean. The regional headquarters will be located in the new City of Knowledge, being built at the former Howard Military Base, on which the Panama government has spent $2 million for the first stage of redevelopment. The UN move consolidates Panama as a centre of regional agencies and international organisations, confirming the quality of its legal system and infrastructure. The UN indicated that Panama's security and stability were the foundation for the establishment of the UN headquarters.

Alternative regional hub for travellers

The Panamanian airline COPA is taking advantage of Panama's location between North and South to create the "hub of the Americas". The acquisition by Continental Airlines of 49% of the company back in 1998 has given the company the support of a solid international partner allowing them to expand the company well beyond Central America's border.

The Hub of the Americas continues to grow. It offers convenient flight schedules designed for connecting times of less than 90 minutes, bags checked to the passenger's final travel destination, and a variety of duty-free shops.

All of these investments will have a positive impact on the local economy. The government policies are now being focused on streamlining the procedures for starting up and running small and medium business and attracting multinationals.

More transparency in the administration of public resources and policies creating a fair redistribution among the population are essential for the continuing development of the country. ●