

PANAMA ADVISORY INTERNATIONAL GROUP

The Latin Business Chronicle covers business in Latin America and my friend Joachim Bamrud the editor, wrote this article of interest about Panama.

Monday, October 20, 2008

Panama: Good Outlook

Panama's economy continues to grow, helped by the Canal expansion, construction, tourism and telecommunications.

BY JOACHIM BAMRUD

While concern about the impact of the U.S. crisis is spreading throughout Latin America, at least one country is still dominated by general optimism: Panama. While stock markets were crashing in the United States, Brazil, Mexico, Europe and Asia, the Panamanian agency that runs the Panama Canal last week managed to raise \$2.3 billion in financing for the expansion of the waterway.

"Despite the meltdown in the rest of the world...the effects have not reached here yet," says David Hunt, the executive director of the American Chamber of Commerce in Panama.

Robert McMillan, the former chairman of the Panama Canal Commission and author of *Global Passage: Transformation of Panama and the Panama Canal*, is also upbeat. "The Canal expansion, coupled with tourism and second homes for Americans, signals only positives for economic and business development in Panama," he says.

ECONOMIC BOOM

Panama is expected to become Latin America's fastest-growing economy next year, the International Monetary Fund predicts in its latest outlook released this month. This year, it will likely end up just behind Peru as the fastest-growing economy, it estimates.

While there is sure to be a slowdown in the long-booming real estate sector, in part due to over-supply before the U.S. crisis, demand is still strong thanks to many Latin Americans - especially Venezuelans - buying up new or second homes. Many Latin Americans are also helping to fill up the hotels, avoiding previous destinations such as Miami.

"One factor I see in Panama's favor is the number of people who now come to Panama City and avoid traveling to Miami because it has become extremely uncomfortable with the issues facing travel these days," says Thomas Brymer, CEO of Panama Advisory International Group and a long term commercial real estate advisor in Miami. "If you look at Panama City and the night life; the MultiPlaza Mall [with its] new upscale shops, and who is shopping there; the hotel development going on and the growth in the coastal area around Coronado; Panama is a real player now in the



SLOWLY, BUT SURELY: The Panama Canal continues to bring in revenues for Panama and its expansion is slowly, but surely progressing. (Photo:ACP)

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tourism business with a lot of South American visitors who are opting out of travel to the United States."

CONSTRUCTION AND TOURISM

Panama's economy will likely grow by 8.3 percent this year, the IMF estimates. That follows an 11.5 percent GDP increase last year – its best result in more than 27 years. Next year, the economy should expand by another 7.8 percent, the fund forecasts.

"Transportation, construction, tourism and telecommunications have been growing over the past several years and appear to continue to fuel growth in the economy," Hunt says.

There are, however, some indications that the construction boom may be maturing, including banks taking a harder look at new projects that they had in the past, but new buildings continue to rise, he adds. "As this shifts, the construction on the widened Canal and possibly new energy facilities by Occidental/Qatar and Energías may well take over," Hunt says.

MARITIME AND MEDICAL

The maritime sector, mining, finance and medical tourism will also help drive future growth, argues Brymer. "Even with slower maritime business, Panama as a hub of over 5 percent of the world's goods that pass through the canal will in the long run be a driving force as the canal expansion is completed and the economies of the world settle down," he says. "Coupled with the financial sectors, the energy sector - Petro refinery, mining -- the recent acquisition of Petaquilla Copper to one of the largest mining companies in the world -- and the huge potential for Panama to capitalize on the continued exodus of expats leaving the United States for economic and political reasons."

Some 50,000 people go to India and the Far East for medical procedures, but Panama has the ability to compete in this tremendous medical tourism business John Hopkins affiliate in Punta Paitilla, Brymer says.

And Panama continues to cement its position as a regional hub for business. This week, the Panama Diamond Exchange will be formally opened. When complete, it will be Latin America's first and only complex dedicated to the secure and orderly trade in diamonds, gemstones and jewelry, the organizers say. A new Panama Diamond Exchange Tower will be built on a plot of land located nearby Panama City's business center and house company offices, showrooms, gem labs and banks. "Anchored by our bourse, the new complex will provide the infrastructure that will enable Latin America develop into the next great diamond market," Erez Akerman, president of the Panama Diamond Exchange, said in a statement.

PANAMA CANAL

But it's the Panama Canal that remains the main driver of Panama's economy. It is undergoing a multi-year, \$5.2 billion expansion aimed at widening the waterway. The \$2.3 billion loan package it received last week came from a group that includes the Japan Bank for International Cooperation (\$800 million), the European Investment Bank (\$500 million), the Inter-American Development bank (\$400 million), the International Finance Corporation (\$300 million) and the Andean Development Corporation (\$300 million).

"It is the object of immense satisfaction for the entire nation – that in the midst of global uncertainty, multilateral agencies have reinforced their confidence in Panama," President Martin Torrijos said last week. "This is the voice of the international community expressing solid support for a

Panamanian project that will serve world commerce and international trade.”

The remaining \$3 billion will be financed by canal-generated cash flow, the Panama Canal Authority (ACP) announced. “The ACP indicates this is the only financing that they will need for the expansion, but I would imagine this depends on how deep the world-wide recession goes and how much the recession affects the volume of traffic through the Canal,” Hunt says.

The \$2.3 billion financing comes after the ACP received a much-coveted investment grade status from Moody’s in September. Moody’s Investors Services issued the ACP an A2 credit rating.

“The Moody rating is but another signal that Panama is on the right economic track. In my judgment, subject to Panamanian politics, things are destined to get even better,” McMillan says.

The canal’s transits and tonnage are growing, albeit at low levels, despite the global slowdown. In the third fiscal quarter, transits grew by 2.5 percent, while tonnage grew by 0.9 percent. “While we continue to see flat economic trends and a slowdown in growth on a global scale, the Panama Canal experienced an increase in transits and tonnage during the third quarter,” ACP Executive Vice President of Operations Manuel Benítez said in a statement in late July when the results were announced.

McMillan is bullish on the canal’s future, as long as the government continues to grant the waterway as much independence as possible. “Alberto Aleman has been and continues to do an outstanding job in running the Canal and monitoring the expansion project,” he says of the ACP Administrator. “The future will continue to be positive so long as Panama’s political leadership leaves the Canal in the hands of its current effective management.”

CHALLENGES

Despite the relative solid growth outlook, Panama does face several worrying challenges. One of the key ones is the rising inflation. After many years of low inflation – typically the lowest in Latin America – consumer prices started growing in 2005, reaching 2.9 percent. That was the highest since 1982. Then – after falling slightly in 2006 - it almost doubled last year, reaching 4.2 percent. This year, the trend will continue – with an estimated rate of 9.2 percent, according to the IMF. That’s the highest rate since 1980. Next year, the inflation should fall to 5.9 percent – which is still high by Panamanian standards, but will provide some relief.

“Inflation will be a problem for the near future and how to soften its blow on the working class will be a serious challenge for the current Administration and the one that enters in July of 2009,” Hunt says.

Electrical energy is another area that has to be addressed in the near future, with demand rising inexorably towards the supply line, he adds. “Panama must come to grips with at least temporary tradeoffs between energy production and the environment, and find new ways to minimize and mitigate damage while increasing capacity,” Hunt says.

There is also some uncertainty about the future political situation. Torrijos, a pro-business, pro U.S. politician, will likely be succeeded by Balbina Herrera, who is seen as less friendly to both business and the United States. She is also dogged by accusations that she was too close to former strongman Manuel Noriega, who ruled Panama until he was ousted in a 1989 US invasion.

“Herrera has shown herself to be pragmatic in the past, but stories from the 1980s cause some concern,” Hunt says. “She will decidedly be focused on how to help those at bottom of the economic scale if she wins. How she will go about this is a work in progress.”

According to a Dichter & Neira poll released by TVN Noticias and newspaper *Panamá América* last month, Herrera can count on 38.8 percent support for her presidential bid. Ricardo Martinelli, a prominent businessman, comes in second, with 25.8 percent.

"Let us all hope that if Balbina Herrera is elected that she will have learned lessons from the past and would govern with out interfering in the Canal's operation," McMillan says. "And we will all have to keep a watchful eye on the disposition of the court appeals by Manuel Noriega as to whether he is sent to Paris to stand trial or returned to Panama."

FREE TRADE

Local and U.S. businesses are now eager for the US Congress to approve the U.S.-Panama free trade agreement, which was completed in December 2006.

Since virtually all Panamanian products going to the United States currently enter duty-free thanks to Caribbean Basin Initiative (CBI), the FTA will not necessarily boost Panamanian exports to the United States, Hunt points out. "The real impact will be on investor confidence and willingness to invest in Panama," he says. "The rules of engagement, legal requirements and international arbitration written into the Agreement will give potential investors greater confidence that they will be treated equitably and that they will have reasonable recourse in cases of disagreement and dispute. This should increase the attractiveness of Panama as a place to invest."

Panama last year captured \$1.8 billion foreign direct investment, a decline of 29 percent from 2006, according to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC).

The FTA with the United States has been delayed by U.S. domestic policies, first a dispute over the US-Colombia FTA (which is also pending approval and which the Bush Administration wanted Congress to approve first) and now the U.S. presidential elections.

"The US-Panama Free Trade Agreement is essential for the United States Congress to approve as soon as possible," McMillan argues. "It has already been delayed too long."

Joachim Bamrud, the editor-in-chief of Latin Business Chronicle, was a Panama correspondent for Reuters, UPI and The Miami Herald in the early 1990s and is the author of Panama Jack, a spy novel set in Panama and China.

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