



PanaManagement Corporation™

445 Park Avenue, 9th Floor
New York, NY 10022

World Trade Center, Calle 53, Marbella
Panamá City, Panamá Republic

Fitch Affirms Panama's L-T Foreign & Local Currency IDRs at 'BB+'; Outlook Positive

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the Republic of Panama's long-term foreign currency and local currency Issuer Default Ratings (IDRs) at 'BB+' with Positive Rating Outlooks. Fitch has also affirmed the short-term foreign currency IDR of 'B' and the country ceiling of 'BBB+'.

The affirmation of Panama's ratings and continuing Positive Outlook reflects Fitch's view of the sovereign's resilience to withstand the international financial crisis, even though Panama will experience a cyclical downturn and downside risks are present. Although both economic growth and the fiscal balance are expected to deteriorate in 2009, Panama's macroeconomic and structural strengths will continue to set it apart from 'BB' peers.

Higher savings and investment, partly due to the ongoing Canal widening project, should help Panama maintain stronger economic growth this year relative to the global slowdown in 2001/02 and also compared to regional peers. As such, Fitch believes that Panama should be able to absorb future increases in public debt related to the expansion of the canal without precipitating downward pressure on the ratings given its growth prospects and the expectation that fiscal discipline will be maintained even during an election year.

"Panama's key credit metrics continue to strengthen, with growth averaging 8.8% for the five years ending in 2008, one of the highest rates in the world," according to Theresa Paiz Fredel, Senior Director in Fitch's Sovereign Ratings team. This has contributed to the convergence of per capita income with that of low investment grade sovereigns. "As a result of Panama's robust growth performance, as well as its improved fiscal and external position, the country is well situated to face a reduction in external demand and international capital flows," added Paiz Fredel.

Official dollarization, a stable financial system, low public sector debt service needs as well as the government's considerable financial and land assets support the sovereign's IDR of 'BB+'. Furthermore, dollarization underpins an established track record of macroeconomic stability unrivaled by sub-investment grade emerging markets, as illustrated by an extended period of high growth in conjunction with low to moderate inflation.

Panama's main credit weakness remains its high level of government debt, although key public debt metrics have been improving at a steady pace over the past five years. Fiscal consolidation and vigorous growth reduced the government debt to GDP ratio to an estimated 42% last year, from a peak of 66% in 2004, in line with the 10-year 'BB' category median of 41% and converging toward the 10-year 'BBB' category median of 36%. Furthermore, a

New York Office:
Telephone: 212-541-3909
Facsimile: 212-541-3907

Panamá City Office:
Telephone: +507-269-0060
Facsimile: +507-269-0062



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manageable debt service profile and the low probability of a devaluation induced increase in debt ratios sufficiently offset this weakness. Despite the moderate debt burden and Fitch's expectation that the non-financial public sector will revert to a deficit position, the government's financing needs remain manageable at an estimated 3.4% of GDP this year, among the lowest of 'BB' rated sovereigns and further supporting creditworthiness.

While the net sovereign external debt to current account receipts ratio remains high at 24.1% compared with a peer median of 14%, this partly reflects Panama's monetary regime whereby the authorities do not technically maintain international reserves. Given Panama's high level of private sector external assets, at 1.4%, its overall net external debt as a proportion of current account receipts surpassed the ten-year 'BB' and 'BBB' medians of 21.2% and 24.9%, respectively.

Fitch believes that if managed appropriately, the long-term economic benefits of expanding the Canal outweigh the short- to medium-term costs of increased public debt. Continued growth momentum and resilience of Panama's macroeconomic policy framework in the context of the current global economic and financial crisis could be positive for creditworthiness. Given the small size of Panama's economy, its vulnerability to external shocks and rigidity in public finances, a sustained reduction in the government's debt burden could also benefit creditworthiness.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

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