

# BEST'S COUNTRY RISK REPORT

## Panama

### CRT-4

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Panama, a CRT-4 country, has a moderate amount of economic and political risk and a high level of financial system risk. Over the past few years, it has experienced rapid economic growth, underpinned by investments in infrastructure. Real GDP growth is projected to remain strong at 5.6% in 2018. Growth is vulnerable to downturns in the global economy and to the country's high level of income inequality.
- The map depicts the countries in Central America, South America, and the Caribbean that A.M. Best evaluates. The majority of Latin American countries are categorized as CRT-3, CRT-4, or CRT-5.



Economic Risk



Political Risk



Financial System Risk

- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

## Regional Summary: Latin America

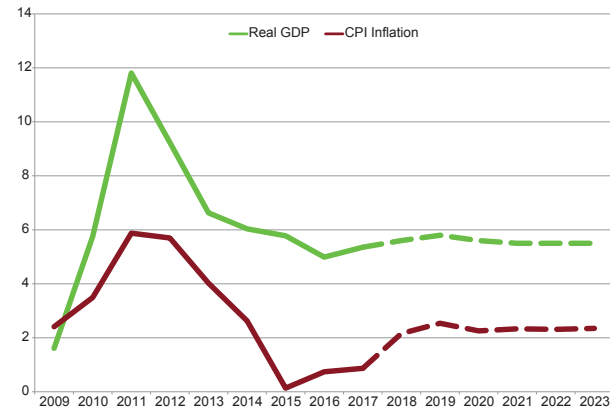
- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017		
Nominal GDP	USD bn	61.84
Population	mil	4.1
GDP Per Capita	USD	15,089
Real GDP Growth	%	5.4
Inflation Rate	%	0.9
United Nations Estimates		
Literacy Rate	%	95.0
Urbanization	%	67.2
Dependency Ratio	%	54.8
Life Expectancy	Years	78.8
Median Age	Years	29.2
Insurance Statistics		
Insurance Regulator	Superintendent of Insurance and Reinsurance	
Premiums Written (Life)	USD mil	371
Premiums Written (Non-Life)	USD mil	1,072
Premiums Growth (2016 - 2017)	%	5.3
Regional Comparison		
		Country Risk Tier
Panama		CRT-4
Dominican Republic		CRT-4
Jamaica		CRT-4
Mexico		CRT-3
Trinidad and Tobago		CRT-4
Colombia		CRT-4

Source: IMF, UN, Swiss Re, Axco and A.M. Best



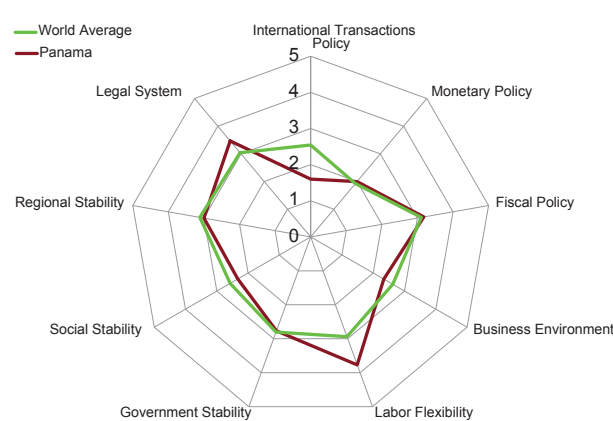
### Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

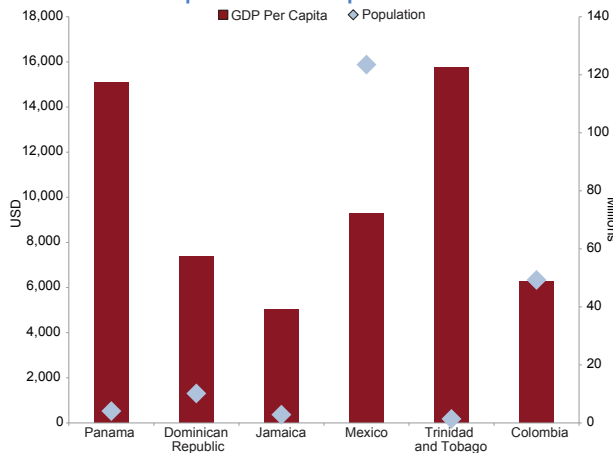
### Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

### GDP Per Capita and Population



Source: IMF and A.M. Best

## Economic Risk: Moderate

- Panama's economy is small and dollar-based. The country has an extensive services sector. Despite strong growth recently, Panama's wealth distribution is highly unequal, with nearly a quarter of the population living in poverty.
- Construction, mining, and financial services have been the main drivers of the recent economic expansion. Consumption will be encouraged by ongoing growth, strong employment, and low inflation, further supporting GDP growth.
- Crime rates are low by regional standards, but civil protests on environmental grounds and labor disputes pose risks to the business environment. Unrest is projected to persist in 2018.
- The agriculture sector accounts for two thirds of Panama's foreign exchange, and the country depends on imports to meet its energy needs. As a result, Panama is highly vulnerable to external shocks.

## Political Risk: Moderate

- Current President Juan Carlos Varela is politically centrist and generally pro-business. Varela has been identified as being involved in corruption activities, but has denied the accusations. Nevertheless, his ability to implement planned projects will be impacted. Furthermore, contracts signed under his administration prior to 2016 will face a higher risk of being reviewed, revised, or suspended.
- Corruption is high and has the potential to disrupt business operations. The judiciary is subject to influence by the executive branch, and judicial processes are time consuming and expensive. Panama is ranked poorly on judicial independence by the World Economic forum, at 120 out of 137 countries.
- Despite its opaqueness, the legal environment provides generally adequate protection and contract stability for investors. Political institutions, however, lack transparency and the capacity to carry out procedures efficiently.

## Financial System Risk: High

- The insurance sector in Panama is regulated by the Superintendent of Insurance and Reinsurance. The Insurance Law of 2012 created a strengthened insurance registration system.
- Tax rates are expected to remain broadly stable. The president has introduced measures to update the tax collection process to enhance efficiency and transparency. The public debt is growing and requires increased fiscal revenues to offset.
- The banking system is stable, profitable, and well-capitalized, according to the International Monetary Fund. However, further measures to improve transparency and financial integrity are recommended.
- Panama should continue criminalizing tax evasion to come closer to international anti-money laundering standards.