

Research Update:

# Panama Long-Term Sovereign Ratings Lowered To 'BBB' From 'BBB+' On Higher Interest Burden; Outlook Stable

November 24, 2020

## Overview

- We expect Panama's sharp economic contraction induced by the COVID-19 pandemic to increase the sovereign's financing needs.
- The rising debt burden, combined with lower fiscal revenue, has resulted in higher interest payments for the government.
- We are therefore lowering our long-term sovereign credit ratings on Panama to 'BBB' from 'BBB+' and affirming our 'A-2' short-term sovereign credit ratings.
- The stable outlook reflects our view that despite a severe contraction this year, the economy will recover at a solid pace, helping to stabilize public finances.

## Rating Action

On Nov. 24, 2020, S&P Global Ratings lowered its long-term sovereign credit ratings on Panama to 'BBB' from 'BBB+'. The outlook on the long-term ratings is stable. We also affirmed our 'A-2' short-term sovereign credit ratings. Our 'AAA' transfer and convertibility (T&C) assessment is unchanged.

## Outlook

The stable outlook reflects our view that a solid economic recovery in the coming two years will help stabilize public finances in Panama. We expect the government will take measures to sustain long-term GDP growth and to address fiscal risks stemming from the social security system and a narrow tax base.

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## Downside scenario

We could lower the ratings over the coming two years in the event of a weaker-than-expected economic recovery, which would affect the country's income per capita, constrain government revenue, and increase fiscal risks.

## Upside scenario

Although it is unlikely over the next two years, we could raise the ratings if we see sustained improvement in Panama's external profile, reflected in sharp reductions in external financing requirements, combined with a substantial decline in the net general government debt and interest burden.

## Rationale

The downgrade reflects pressures on Panama's debt servicing costs because of the government's higher debt burden, coupled with an abrupt decline in fiscal revenue. We estimate the government's interest payments will consume 17% of its revenue in 2020 and then average 12% in the coming two to three years (2021-2023) as growth accelerates and debt stabilizes.

Panama's economy faced a severe COVID-19-related downturn in 2020 but is beginning to rebound. Strict lockdown measures to curb the spread of the virus led the economy to shrink by a projected 9%, one of the largest contractions in the region. However, as the lockdown has eased, GDP growth is set to rebound in 2021 to 7% and to average about 5% in the following years, boosted by large infrastructure projects and mining exports.

Panama's stable democracy and political institutions have sustained predictable economic policies and cautious macroeconomic management for many years. Despite the current downturn, the economy remains diversified and resilient. The ratings are supported by the sovereign's moderate debt burden and cautious debt management.

The ratings also incorporate a weak external profile, partly reflecting Panama's vulnerability to sharp swings in global economic conditions as a small and open economy. Moreover, the ratings are constrained by the country's lack of an independent monetary policy and lack of an effective lender of last resort to the financial system. Panama is fully dollarized and has no central bank.

## Institutional and economic profile: A severe economic contraction followed by a solid rebound in the coming three years

- We expect Panama's economy to contract about 9% this year and then grow 7% in 2021 and 5% in 2022-2023.
- We anticipate the government will take steps to resume fiscal adjustment and enhance long-term GDP growth prospects as economic activity gradually returns to normal.
- However, the government faces the challenge of gaining enough support to pass structural reforms to strengthen its fiscal position, enhance the institutional framework, and promote stronger productivity.

The COVID-19 pandemic will cause Panama's economy to contract by 9% over 2020--higher than

our previous expectation--from already weak growth of 3% in 2019. The country's lockdown-related curfews, among the strictest in the world, caused a huge hit to the economy, and the rules restricting mobility proved controversial. In response, the government implemented a large fiscal stimulus, the main measure of which has been the program Panama Solidario, through which the government transfers US\$100 monthly vouchers to vulnerable households (reaching 1 million people). The program has been extended by six months to June 2021.

Economic activity has been picking up in the agriculture sector and a number of other industries, although services are lagging behind. Activity has remained resilient in seaports and declined only slightly in the Panama Canal. Going forward, we expect policymaking will prioritize economic reactivation.

Our analysis of Panama incorporates the country's record of good GDP growth and economic resilience, including rapid recovery from previous recessions. Panama's GDP per capita is likely to drop to US\$14,100 in 2020 and regain its pre-pandemic level in 2022. Despite the contraction in 2020, per capita GDP growth on a 10-year average basis should remain above that of Panama's rating peers at the same level of development.

We forecast GDP growth will accelerate to about 7% in 2021 and average about 5% in 2022-2023. Our projections depend heavily on the speed of recovery from the pandemic. The projections are also supported by an expected recovery in world and regional GDP growth, several large public-sector investment projects, and the ramping up of copper production at the large Cobre Panama mine, which will sustain growth and exports. The copper mine is likely to reach full production in 2022 amid higher copper prices (see "S&P Global Ratings Lifts Price Assumptions For Most Metals").

Key infrastructure projects, such as a third metro line, expansion of the Tocumen airport, a new hospital, and road construction (2,000 kilometers), should sustain growth momentum in the next couple of years and contribute to better productivity. The construction of a fourth bridge over the Panama Canal has been delayed for budgetary reasons. Moreover, the Panama Canal Authority has recently launched the tender process for an upgrade of its water supply systems. It will be Panama's largest infrastructure program since the expansion of the canal in 2016. Capital spending is projected at US\$2 billion, but the project is not likely to start before 2022.

President Laurentino Cortizo, of the center-left Democratic Revolutionary Party (PRD, by its Spanish abbreviation), took office in July 2019 for a five-year term. He was elected on a platform of tackling institutional weaknesses, committing to reforming the constitution, combating corruption and money laundering, and stimulating economic activity while pursuing sound fiscal policies. His popularity has suffered during the pandemic, according to recent polls, and stands at about 40%.

Our assessment of Panama's institutional profile incorporates its consolidating democracy with developing checks and balances. The country's main political parties share a broad consensus on key economic policies that sustain investor confidence and have created favorable conditions for the country's impressive GDP growth over the past decade.

The PRD--in coalition with the Mollirena Party--has a majority in the National Assembly, whereas the opposition is fragmented. The president announced a national dialogue commencing in November 2020 aimed at paving the way for discussions in the assembly about various long-term issues. Although the agenda has not been defined yet, it is likely to address important topics, such as a reform of the public pension system, water and health services provisions, education, and strengthening of institutions.

Reforms to the pension system are particularly important because the reserves of the national pension plan, Caja de Seguro Social (CSS), are expected to be depleted by 2023, which would constrain fiscal flexibility. Given the political sensitivity of these issues, advancing reforms will

depend on cooperation with various interest groups and political parties. It remains to be seen whether the Cortizo Administration can gain legislative support to pass likely controversial reforms in the next two years.

### **Flexibility and performance profile: Fiscal adjustment will be key in the next two years to contain the deficit and debt costs**

- We expect the fiscal deficit to increase beyond 8% of GDP this year and to gradually decline afterward as a result of fiscal consolidation efforts and economic recovery.
- We assume fiscal consolidation will start next year, but deeper structural reforms could be difficult to implement.
- Panama lacks monetary policy flexibility because it uses the U.S. dollar as its currency.

The combination of economic contraction, higher government spending, and lower revenue will raise Panama's fiscal deficit and the government's debt burden in 2020-2022 beyond our previous expectations. The fiscal impact of the pandemic led the government to modify the parameters of its Fiscal Responsibility Law (FRL). It set new caps on the fiscal deficit at 9%-10.5% of GDP in 2020, 7%-7.5% in 2021, 4% in 2022, and 3% in 2023. Panama's fiscal deficits had increased before the pandemic. Fiscal slippages in 2018-2019 were largely attributed to accumulated debts not registered as part of the deficit under the previous administration. As a result, the FRL was amended for the first time in September 2019.

The general government deficit may exceed 8% of GDP in 2020, more than 5 percentage points of GDP higher than last year. We assume economic recovery in 2021, along with moderate fiscal adjustments, will reduce the fiscal deficit to 5.6% of GDP in 2021 (and about 2% in 2023). Given the government's sizable capital spending in recent years, we believe it has room to lower spending to contain fiscal deficits in the coming years.

Panama faces challenges in strengthening its public finances in the medium term. The most urgent problem is the deteriorating finances of the CSS, further aggravated by the pandemic. Any reform to the CSS will likely include increasing transfers from the central government. Moreover, Panama's government revenue is low compared with peers', at about 18% of GDP in 2019, below the historical average (above 20% of GDP between 2010 and 2018). Tax revenue is only 8% of GDP due to high levels of evasion, tax incentives, and exemptions. The government plans to enhance tax collections through various administrative measures in the near term.

To fund its larger financing needs, the government has access to credit lines with multilaterals, including a US\$515 million from the IMF under the Rapid Financing Instrument; US\$300 million from the Inter-American Development Bank to support microbusinesses, small businesses, and agricultural producers; and US\$41 million from the World Bank in the Catastrophe Deferred Drawdown Option.

Panama tapped international markets twice in 2020 (in March and September) at low rates and with strong demand from investors. In addition, the Panama Savings Fund (FAP, by its Spanish abbreviation) contains about US\$1.4 billion (about 2% of GDP), providing a fiscal buffer. The use of money held in the FAP was approved by the legislature, and the withdrawals would have to be replenished within five years.

High fiscal deficits will likely raise the net general government debt burden toward 43% of GDP in 2020 and stabilize it at about 45% in the next two years. Based on the government's projections, we expect interest payments will increase to 17% of general government revenue in 2020, owing to lower fiscal revenue and a larger debt burden, and will average 12% in 2021-2023.

Panama has improved its debt profile in recent years. Its average maturity reached 13 years, and 82% of total debt is under a fixed interest rate, which reduces market risk. Also, its weighted average cost declined to 4.1% in September 2020, and the limited amount of short-term debt (letras del tesoro), along with a mostly stable maturity profile up to 2023, contains refinancing risk.

We forecast the current account deficit (CAD) will slightly increase in 2020 to 6.2% of GDP and stabilize below 6% in the coming three years. Exports are expected to recover, largely boosted by the mining sector, and to mitigate a larger import bill on stronger domestic demand. As in previous years, we expect foreign direct investment (FDI) inflows to cover most of the CAD over 2021-2023, following a deterioration in 2020, as companies revise down their earnings estimates. Net FDI would average 7% in 2021-2023, which compares favorably with peers in the region.

Higher exports should increase current account receipts (CAR), contributing to a decline in Panama's narrow net external debt toward 89% of CAR by 2023. We also expect gross external financing needs to CAR plus usable reserves to gradually decline toward 190% in the next three years. A more diversified export base should make Panama less vulnerable to external shocks over time.

As a fully dollarized economy, Panama lacks monetary flexibility. However, dollarization and an open economy have kept inflation low, averaging only 0.4% in the past five years. We expect inflation to be negative in 2020 (-0.8%) and to remain low in 2021-2023, mirroring subdued inflation in the U.S. and the decline in oil prices.

Panama does not have a central bank or formal lender of last resort, or an effective deposit insurance system to support distressed financial institutions. A US\$1 billion liquidity fund from the IMF and MIGA-guaranteed loans, managed by the publicly owned bank Banco Nacional de Panama, was created to support banks with potential liquidity pressures and to stimulate credit facilities in the banking system.

To address the economic impact of COVID-19, the Superintendency of Banks of Panama (SBP) allowed banks to use accumulated dynamic provisioning (about US\$1.3 billion, or 2% of GDP) to absorb the impact of credit losses. It also allowed for a moratorium--extended to June 2021--on interest and principal payments for commercial loans, mortgages, consumer loans, and credit card debt (only for borrowers with documented proof of financial distress). About half of the system credits benefited from this measure. In line with a new regulation of the SBP, banks are required to create new loan provisions to account for expected losses of at least 3% of the modified loan portfolio, in order to better capture the risk of deterioration in their loan quality.

We place the Panamanian banking system in our Banking Industry Country Risk Assessment (BICRA) group '5'. BICRAs are grouped on a scale from '1' to '10', ranging from what we view as the lowest-risk banking systems (group '1') to the highest-risk (group '10'). We believe the banking system poses a limited contingent liability to the sovereign.

According to the SBP, liquidity is very high (about double the legally required minimum) and solvency remains robust. In recent years, credit growth has decelerated, reflecting moderation in economic growth and rising interest rates. We expect credit growth to weaken in 2020, reflecting depressed demand, before accelerating in 2021-2023 as the economy recovers. Commercial lending is high (assets are above 150% of GDP) compared with the regional average. Nonperforming loans remain low, although recent figures are distorted because of the debt moratorium, which prevents "modified loans" from being classified as nonperforming loans.

The country's financial system regulation continues to improve, although implementation challenges remain. In June 2019, the Financial Action Task Force (FATF) placed Panama back on its international watch list (the country came off the previous version of the list in 2016), citing

difficulties in passing key pieces of anti-money-laundering and counterterrorist financing legislation on a timely basis (despite progress on technical matters). In February 2020, the EU added Panama to its blacklist of noncooperative jurisdictions in terms of tax transparency and financial information. However, the FATF's and EU's decisions have not damaged economic growth or investment in the country thus far, in our view. Moreover, banks have maintained good access to external financing.

We continue to assess Panama's contingent liabilities as limited. The main government-related entities, such as the Panama Canal Authority and Tocumen International Airport, do not rely on government funds. Meanwhile, the sovereign does not guarantee the debt of these public entities. Concerns over water shortages have been mounting in recent years, both for the Panama Canal operations and for the growing population. The country is also exposed to hurricanes and tropical storms. In November, Hurricane Eta hit the western part of the country, causing several casualties and damage to agriculture and infrastructure.

In our opinion, the likelihood of the Panamanian government ceasing to use the U.S. dollar as its local currency is low. Therefore, our T&C assessment is 'AAA', the same as that of the U.S.

## Environmental, social, and governance (ESG) credit factors relevant for this credit rating change:

- Health and safety

## Key Statistics

Table 1

### Panama--Selected Indicators

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Economic indicators (%)</b>											
Nominal GDP (bil. LC)	45.60	49.92	54.09	57.91	62.22	65.13	66.80	60.30	64.85	68.78	72.22
Nominal GDP (bil. \$)	45.60	49.92	54.09	57.91	62.22	65.13	66.80	60.30	64.85	68.78	72.22
GDP per capita (000s \$)	11.8	12.8	13.6	14.3	15.2	15.7	15.8	14.1	15.0	15.6	16.2
Real GDP growth	6.9	5.1	5.7	5.0	5.6	3.7	3.0	(9.0)	7.0	4.5	5.0
Real GDP per capita growth	5.1	3.4	4.1	3.4	4.0	2.2	1.6	(10.3)	5.5	3.1	3.6
Real investment growth	9.7	5.8	6.4	(1.1)	8.4	2.3	(4.0)	(17.8)	12.3	9.5	9.8
Investment/GDP	44.0	44.3	42.8	40.5	41.7	41.3	40.4	35.8	36.8	38.8	40.8
Savings/GDP	34.9	30.9	34.9	32.5	35.8	33.1	35.2	29.6	31.1	33.1	35.1
Exports/GDP	65.2	55.4	47.7	42.0	48.6	48.7	47.0	45.6	46.4	47.1	48.2
Real exports growth	(3.7)	(7.1)	0.9	(4.3)	26.3	5.1	(0.8)	(11.8)	9.0	5.9	7.5
Unemployment rate	4.1	4.8	5.1	5.5	6.1	6.0	7.1	11.0	10.0	9.0	8.0
<b>External indicators (%)</b>											
Current account balance/GDP	(9.1)	(13.4)	(7.9)	(8.0)	(5.9)	(8.2)	(5.2)	(6.2)	(5.7)	(5.7)	(5.7)

Table 1

# Panama--Selected Indicators (cont.)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current account balance/CARs	(12.7)	(21.6)	(14.0)	(16.5)	(12.2)	(16.9)	(11.1)	(13.4)	(12.1)	(11.9)	(11.7)
CARs/GDP	71.9	61.9	56.4	48.4	48.6	48.7	47.0	46.1	47.0	47.7	48.9
Trade balance/GDP	(20.7)	(21.7)	(12.1)	(13.4)	(13.6)	(14.1)	(11.8)	(11.0)	(10.7)	(10.6)	(10.5)
Net FDI/GDP	7.1	8.3	7.3	8.0	6.9	7.9	6.3	5.0	6.0	7.0	7.0
Net portfolio equity inflow/GDP	0.8	2.0	0.4	0.1	1.1	0.6	4.8	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	168.7	179.9	179.7	202.0	196.6	196.7	201.4	206.7	199.7	193.8	189.5
Narrow net external debt/CARs	23.1	24.3	42.7	59.1	70.1	78.0	80.8	90.2	91.8	91.3	88.7
Narrow net external debt/CAPs	20.5	20.0	37.4	50.8	62.5	66.8	72.7	79.6	81.9	81.6	79.5
Net external liabilities/CARs	102.2	119.9	142.3	183.7	188.1	200.6	219.5	267.7	261.0	257.6	253.4
Net external liabilities/CAPs	90.7	98.6	124.8	157.6	167.6	171.6	197.5	236.1	232.8	230.2	226.9
Short-term external debt by remaining maturity/CARs	68.8	74.8	89.5	109.8	109.4	96.6	103.9	118.7	110.6	103.8	98.4
Usable reserves/CAPs (months)	0.8	0.9	1.4	1.2	1.4	0.9	0.7	1.3	1.2	1.2	1.2
Usable reserves (mil. \$)	2,848	4,032	3,378	3,847	2,703	2,121	3,424	3,509	3,708	3,822	4,257
<b>Fiscal indicators (general government; %)</b>											
Balance/GDP	(2.5)	(3.4)	(2.5)	(1.9)	(1.9)	(2.8)	(3.1)	(8.3)	(5.6)	(3.7)	(2.0)
Change in net debt/GDP	2.4	1.7	3.1	2.0	4.7	3.3	5.3	8.8	5.3	3.6	1.9
Primary balance/GDP	(0.7)	(1.7)	(0.8)	(0.2)	(0.1)	(1.0)	(1.2)	(5.8)	(3.2)	(1.5)	(0.0)
Revenue/GDP	21.5	20.2	19.5	20.0	20.0	19.6	18.4	15.3	17.1	18.7	20.6
Expenditures/GDP	24.1	23.6	22.0	21.9	21.9	22.4	21.5	23.6	22.6	22.4	22.6
Interest/revenues	8.4	8.3	8.9	8.7	8.7	9.0	10.3	16.9	14.1	11.9	9.6
Debt/GDP	29.2	31.4	33.1	32.8	32.7	34.8	41.0	52.9	55.4	56.4	56.2
Debt/revenues	135.5	155.0	169.9	164.2	163.6	177.0	222.6	346.1	324.6	302.3	272.5
Net debt/GDP	17.9	18.0	19.7	20.5	23.7	26.0	30.7	42.8	45.1	46.1	45.9
Liquid assets/GDP	11.3	13.3	13.4	12.4	9.0	8.8	10.3	10.1	10.3	10.3	10.3
<b>Monetary indicators (%)</b>											
CPI growth	4.1	2.6	0.2	0.7	0.9	0.8	(0.3)	(0.8)	0.5	1.5	1.5
GDP deflator growth	5.5	4.2	2.5	2.0	1.7	0.9	(0.4)	(0.8)	0.5	1.5	0.0
Exchange rate, year-end (LC/\$)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Table 1

## Panama--Selected Indicators (cont.)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Banks' claims on resident non-gov't sector growth	(8.7)	37.5	13.4	6.4	7.5	4.7	2.1	(1.3)	7.5	6.1	5.0
Banks' claims on resident non-gov't sector/GDP	64.4	80.9	84.7	84.2	84.2	84.2	83.8	91.7	91.7	91.7	91.7
Real effective exchange rate growth	(1.6)	(2.0)	(5.1)	(5.4)	(0.1)	6.7	(1.2)	N/A	N/A	N/A	N/A

Adjustments: None.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

## Ratings Score Snapshot

Table 2

## Panama--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	3	Effective policymaking in recent years, promoting sustainable public finances and balanced economic growth. Evolving checks and balances.
Economic assessment	2	Based on GDP per capita (US\$) and growth trends as per Selected Indicators in table 1.  Weighted average real GDP per capita trend growth over a 10-year period is 2.8%, which is well above that of sovereigns in the same GDP category. We are adjusting the indicator to replace 2020's one-off growth.
External assessment	5	Based on narrow net external debt and gross external financing needs/(CAR + usable reserves) as per Selected Indicators in table 1.
Fiscal assessment: flexibility and performance	2	Based on the change in net general government debt (% of GDP) as per Selected Indicators in table 1.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators in Table 1.
Monetary assessment	5	The balboa is pegged to U.S. dollars. The exchange rate regime is no separate legal tender, challenged by the effect of interest rates from the U.S.  Panama does not have a central bank, nor a formal lender of last resort.
Indicative rating	bbb	
Notches of supplemental adjustments and flexibility	0	
Final rating		



Table 2

## Panama--Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
Foreign currency	BBB	
Notches of uplift	0	
Local currency	BBB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating, the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

## Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

## Related Research

- Sovereign Ratings History, Nov. 9, 2020
- LatAm Financial Institutions Monitor 3Q2020: Climbing Out Of A Deep Plunge, Oct. 21, 2020
- Economic Research: Latin America's Pre-COVID-19 Growth Challenges Won't Go Away Post-Pandemic, Sept. 24, 2020
- S&P Global Ratings Lifts Price Assumptions For Most Metals, , Sept. 24, 2020
- Panama Outlook Revised To Negative On Risk Of Weaker Fiscal And Economic Trajectories; 'BBB+/A-2' Ratings Affirmed, April 24, 2020
- Banking Industry Country Risk Assessment: Panama, Dec. 16, 2019

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria and Research').

## Ratings List

### Downgraded

	To	From
<b>Panama</b>		
Senior Unsecured	BBB	BBB+

### Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
<b>Panama</b>		
Sovereign Credit Rating	BBB/Stable/A-2	BBB+/Negative/A-2

### Ratings Affirmed

<b>Panama</b>		
Transfer & Convertibility Assessment		
Local Currency	AAA	

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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