Announcement of Periodic Review: Moody's Ratings announces completion of a periodic review of ratings of Panama, Government of

23 May 2025

New York, May 23, 2025 -- Moody's Ratings (Moody's) has completed a periodic review of the ratings of Panama and other ratings that are associated with this issuer.

The review was conducted through a rating committee held on 19 May 2025 in which we reassessed the appropriateness of the ratings in the context of the relevant principal methodology(ies), and recent developments.

This publication does not announce a credit rating action and is not an indication of whether or not a credit rating action is likely in the near future. Please see the Issuer page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key Rating considerations and rationale are summarized below.

The government of Panama's ratings, including its Baa3 long term issuer rating, with negative outlook remain unchanged.

Panama's credit quality benefits from sustained strong economic growth resulting from high investment levels and the global role of the Panama Canal. Debt metrics deteriorated markedly in 2024, weighing on fiscal strength. Despite increased willingness to address fiscal challenges, rising fiscal rigidities amid a narrow revenue base impair the government's ability to reduce the deficit rapidly. Dollarization reduces the likelihood of sudden changes in its key credit metrics.

Panama's economy expanded by 2.9% in 2024, despite the significant impact of the Cobre Panama mining project's closure on the sector's activity and overall GDP growth. The economy is expected to rebound to around 4% in 2025, driven by increased activity in the Panama Canal, which has seen a recovery in cargo ship volumes and revenue from canal tolls. Panama's investment-led growth model relies heavily on the performance of the construction sector, supported by large infrastructure projects and private sector activity, which are crucial for maintaining robust growth in the coming years.

The government's fiscal situation deteriorated significantly last year, with a deficit of 7.4% of GDP, the second-largest in the last two decades, leading to an increase in the debt burden to 62% of GDP. The Mulino administration is committed to addressing this fiscal weakening through policy changes, but achieving this goal will require building consensus with the legislative. The passage of a pension reform in March, following prolonged discussions in the National Assembly, will support the sustainability of the pension system for a few decades. However, the government will need to contribute $966 million (over 1% of 2025 GDP) to social security – an amount that can increase by a maximum of 4% per year –, complicating deficit reduction efforts this year. Despite a recovery in revenue, which grew 9% year-on-year, expenditure continues to increase, with interest payments rising by over 20% and capital spending by 18%. As a result, the fiscal deficit in the first quarter of 2025 was slightly higher at 1.6% of GDP compared to 1.5% a year earlier. We will continue to monitor the government's ability to reduce the deficit in line with its fiscal rule targets and assess progress in reducing budgetary rigidities to support multi-year fiscal consolidation.

The credit profile of Panama is supported by the country's "baa1" economic strength, reflecting the economy's medium size, moderate growth prospects and high income levels. Panama's "ba1" institutions and governance strength reflects an adequate institutional quality, the effective management of the Panama Canal Authority, and challenges related to fiscal policy effectiveness and data transparency. Its "ba2" fiscal strength takes account of its high debt burden, weaker-than-peers interest burden, and a favorable government debt profile. Panama's "baa" susceptibility to event risk reflects moderate government liquidity risks and higher political risks related to rising social pressures that are more likely to challenge policymaking and fiscal dynamics going forward.

The negative outlook reflects a larger-than-expected deterioration of the fiscal balance in 2024 and significant hurdles to deliver rapid fiscal consolidation that point to risks of a material deterioration in the sovereign's debt and debt affordability metrics. Despite the new government's willingness to address structural fiscal challenges, as shown by the recently approved pension reform discussion, underlying budgetary rigidities could limit the authorities' ability to materially reduce fiscal deficits and stabilize debt metrics. In turn, this would undermine fiscal policy credibility, resulting in higher borrowing costs for the sovereign that would further weaken debt affordability. Additional credit risks stem from contingent liabilities associated to the social security entity (Caja de Seguro Social, CSS), as well as litigation related to the Cobre Panama mine, although the latter risk has diminished.

An upgrade is unlikely given the negative outlook. The outlook could return to stable if the government takes measures that are conducive to significantly reduce the fiscal deficit in a credible way. In particular, effectively addressing budgetary rigidities that limit fiscal consolidation and measures to improve fiscal policy transparency would support the sovereign's credit profile. As the outcome of the social security reform involves additional fiscal costs to the sovereign starting in 2025, the authorities' demonstrated capacity to manage these costs while simultaneously consolidate the budget in other areas would be credit positive, along with measures to ensure the long-term sustainability of the pension system.

Downward pressures on the rating would stem from lack of policy measures that are likely to be effective in preventing further weakening of the fiscal accounts. A decline in fiscal policy credibility that translates into higher borrowing costs would negatively impact debt affordability and add downward pressures to the rating, as well as the materialization of contingent liabilities stemming from litigation related to the Cobre Panama project.

This document summarizes our view as of the publication date and will not be updated until the next periodic review announcement, which will incorporate material changes in credit circumstances (if any) during the intervening period.

The principal methodology used for this review was Sovereigns published in November 2022. Please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

This announcement applies only to EU rated, UK rated, EU endorsed and UK endorsed ratings. Non-EU rated, non-UK rated, non-EU endorsed and non-UK endorsed ratings may be referenced herein to the extent necessary, if they are part of the same organization list.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

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