

## Panama Sovereign Strategy

# Rearranging the deck chairs

Panama's debt swap has not materially changed the country's debt structure or its parameters, although it further underscores the credit's technical strength. We remain Underweight. Switch out of PANAMA36Ns into MEX36s.

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## Summary

*Panama returned to international capital markets for the first time in nearly two years, but used the proceeds to conduct a liability management operation. Despite small reductions in the amount of debt outstanding and the country's interest bill, we do not see a material change in Panama's public debt structure or its parameters. In our view, Panama's debt swap was aimed primarily at underscoring the technical strength of its eurobond curve through more active engagement, a strategy that has benefited LatAm peers like El Salvador and Colombia in recent years.*

*Panama's technical strength and 2025 fiscal performance (at the non-financial public sector level) mask a continued deterioration in credit metrics. We remain Underweight and do not think Panama should trade inside of Mexico.*

**What happened?** Panama returned to international capital markets for the first time since [February 2024](#) with a \$2.98bn dual-tranche deal (\$1.49bn of PANAMA 5.227% 2034s and \$1.49bn of PANAMA 5.662% 2038s). Panama priced the new bonds at spreads of 140bp and 160bp, respectively.

Concurrent with the new issue, Panama also engaged in a liability management operation<sup>1</sup> to retire:

- \$1.4bn of high-coupon, high-cash price belly bonds; and
- \$1.8bn of low-coupon, low cash price long-end bonds.

In a press release, Panama touted the success of its liability management operation. The country reduced its eurobond debt by \$204mn and lowered its annual interest burden by \$30mn/year (or 3bp of GDP).<sup>2</sup> This translates to an average interest rate reduction of just 7bp (from 5.22% to 5.15%). Despite the headline savings, the operation cost the government approximately \$60mn when including accrued interest, although Panama claims that payment

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**Please see analyst certifications and important disclosures beginning on page 6.**

<sup>1</sup> Republic of Panama Announces Expiration and Results of Tender Offer, Globe Newswire, February 17, 2026

<sup>2</sup> Panamá reduce deuda en US\$204 millones y logra ahorros anuales de US\$30 millones en intereses mediante operación estratégica, Panama Ministerio de Economía y Finanzas, February 18, 2026

of accrued interest will be made from funds other than the proceeds of the new bond offering.<sup>3</sup> While the operation cleared some near-term maturities (eg, \$544mn of PANAMA 2029s and \$711mn of PANAMA 2031s), it also shortened the country's weighted average maturity by 0.84 years (from 16.66 years to 15.82 years). In short, we do not see a material change in Panama's overall debt structure or parameters. [Figure 1](#) provides a comprehensive breakdown of the eurobond debt profile before and after this week's debt operations.

**FIGURE 1. Panama eurobond profile (before and after debt management operation)**

Ticker	Starting (\$mn)	Tendered (\$mn)	Current (\$mn)	Purchase price	Cost (excl. accrued)	Cost (incl. accrued)	Starting ann. interest (\$mn)	Current ann. interest (\$mn)
PANAMA 8.88% 27	975	0	975	-	-	-	87	87
PANAMA 3.88% 28	1,750	0	1,750	-	-	-	68	68
PANAMA 9.38% 29	951	544	407	115.677	629	650	89	38
PANAMA 3.16% 30	1,550	0	1,550	-	-	-	49	49
PANAMA 7.5% 31	1,100	711	389	113.324	806	831	83	29
PANAMA 2.25% 32	2,500	0	2,500	-	-	-	56	56
PANAMA 3.3% 33	1,000	0	1,000	-	-	-	33	33
PANAMA 8.13% 34	173	88	84	119.609	106	108	14	7
PANAMA 5.23% 34	0	-	1,490	-	-	-	0	78
PANAMA 6.4% 35	2,500	0	2,500	-	-	-	160	160
PANAMA 6.7% 36	2,034	0	2,034	-	-	-	136	136
PANAMA 6.88% 36	1,000	0	1,000	-	-	-	69	69
PANAMA 8% 38	1,250	73	1,177	120.848	88	91	100	94
PANAMA 5.66% 38	0	-	1,490	-	-	-	0	84
PANAMA 4.5% 47	1,168	43	1,125	82.074	36	36	53	51
PANAMA 4.5% 50	2,500	281	2,219	80.320	226	230	113	100
PANAMA 4.3% 53	1,750	304	1,446	78.165	238	242	75	62
PANAMA 6.85% 54	1,400	0	1,400	-	-	-	96	96
PANAMA 4.5% 56	2,500	527	1,973	78.254	413	422	113	89
PANAMA 7.88% 57	750	0	750	-	-	-	59	59
PANAMA 3.87% 60	2,950	613	2,337	69.895	428	430	114	90
PANAMA 4.5% 63	1,500	0	1,500	-	-	-	68	68
<i>Total</i>	<i>31,301</i>	<i>3,185</i>	<i>31,097</i>		<i>2,969</i>	<i>3,040</i>	<i>1,633</i>	<i>1,603</i>

Source: Bloomberg, Barclays Research

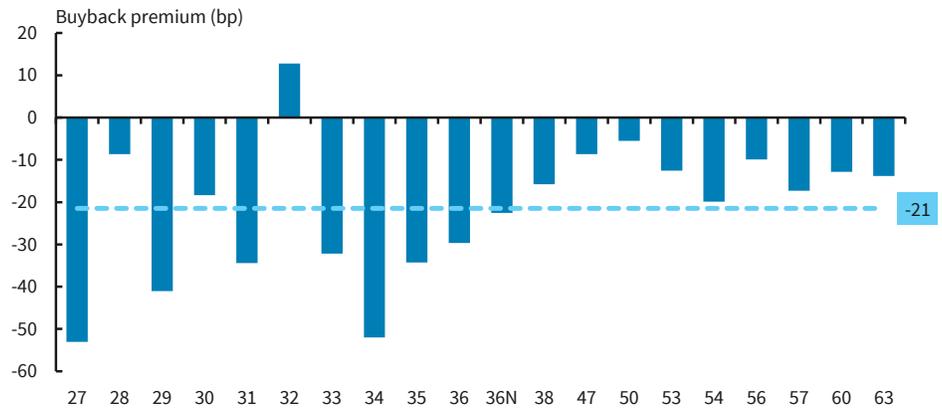
**What did Panama achieve with its debt swap?** We believe that Panama's motivations are likely driven by successful liability management operations in [El Salvador](#) and [Colombia](#), where the market has tended to reward the active engagement of debt management offices. Similar to those two cases, Panama initially offered to repurchase *all* of its outstanding bonds at spreads 20bp tighter than prevailing levels, on average ([Figure 2](#)). This appears to have anchored Panama's curve over the past two weeks ([Figure 3](#)). While spreads have largely retraced to their

<sup>3</sup> Republic of Panama Announces Reference Yields for Previously Announced Tender Offer, Globe Newswire, February 13, 2026

initial spread levels, Panama 10y bonds have outperformed LatAm peers by c.10bp on average since the tender announcement (Figure 4).

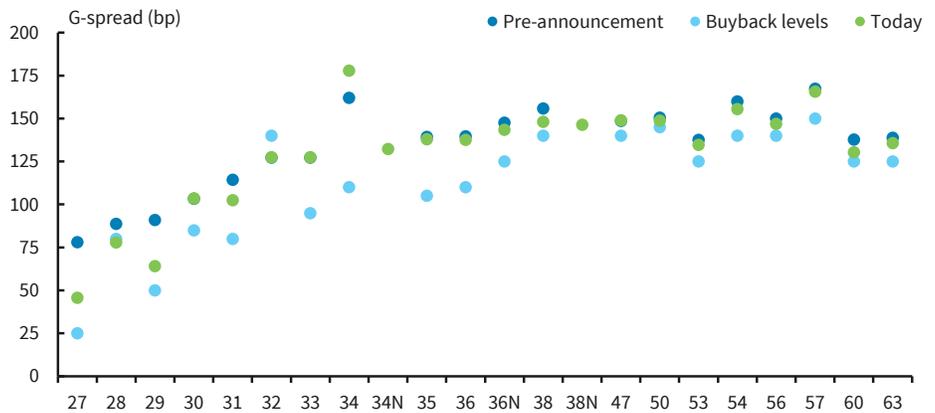
Perhaps most importantly, the debt management operation further underscores the technical strength of Panama's eurobond curve. After a hiatus of nearly two years, the issuer returned to international capital markets and simultaneously reduced the amount of eurobonds outstanding. For investors who had been hoping to use eurobond issuance to cover underweight positioning, the Panamanian authorities have further rationed supply.

**FIGURE 2. Panama offered a spread premium of 20bp on average across its eurobonds**



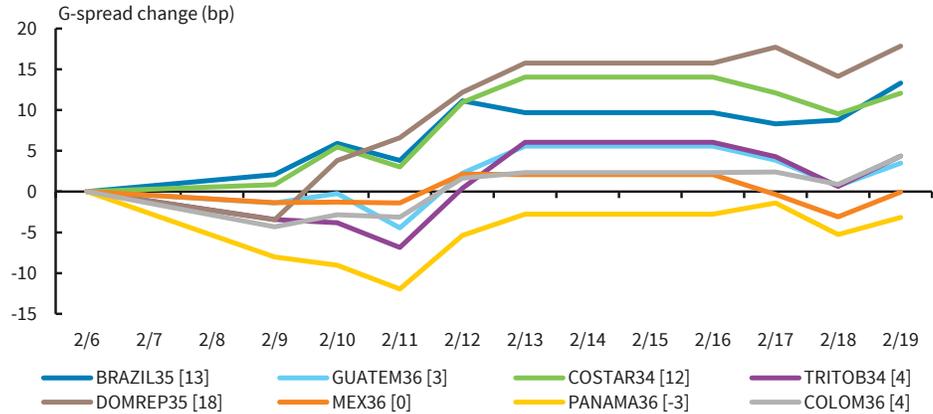
Source: Bloomberg, Globe Newswire, Barclays Research

**FIGURE 3. Panama's buyback announcement helped anchor its curve...**



Source: Bloomberg, Globe Newswire, Barclays Research

**FIGURE 4. ...supporting relative outperformance versus LatAm peers**



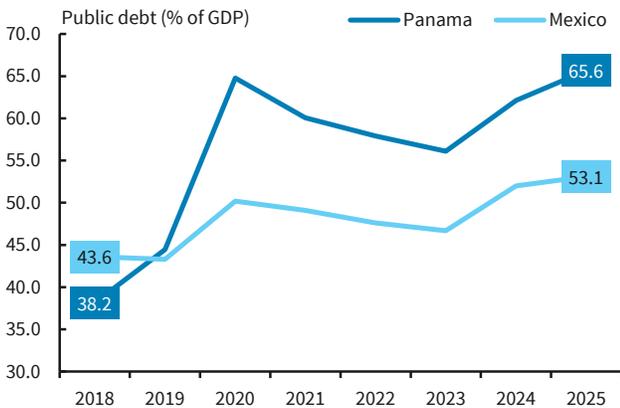
Source: Bloomberg, Barclays Research

**We remain Underweight.** After underperforming in January, Panama has rebounded this month on the back of a better-than-expected fiscal performance at the non-financial public sector level ([Panama: FRL: check, awaiting structural measures](#), February 6, 2026) and the aforementioned debt management operation. Nevertheless, Panama's central government deficit remained above 5% of GDP in 2025, and public debt levels rose 3.5pp. It seems market participants increasingly believe that it will be difficult for Moody's to downgrade Panama to high yield if the Mulino administration successfully passes reforms to improve its budgeting process and takes the necessary steps to reopen *Cobre Panamá*. However, public debt levels have risen by 27pp over the past seven years (Figure 5). While public debt levels could stabilize in the next several years, debt is likely to remain in the mid- to high-60s (as a % of GDP).

**Trade Recommendation: Switch out of PANAMA 6.875% 2036s into MEX 6% 2036s**

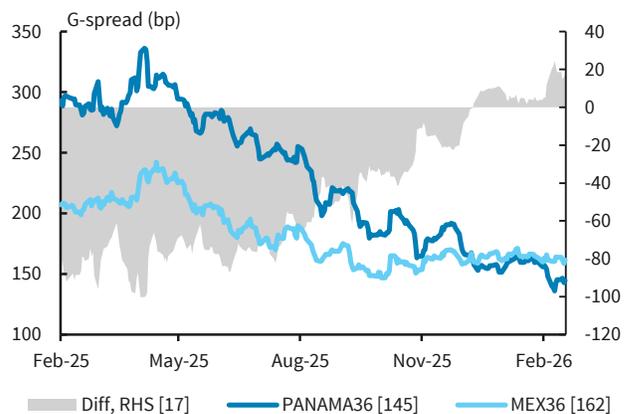
Panama traded as much as 100bp wide to Mexico in 2025. While the Mulino administration's fiscal efforts have been sufficient in reducing its risk premium, we do not think Panama should trade inside of Mexico. We therefore recommend switching out of PANAMA 6.875% 2036s into MEX 6% 2036s and picking up 17bp of spread (Figure 6).

**FIGURE 5. Panama's public debt levels have grown by 27pp over the past seven years**



Source: Panama MEF, Mexico SHCP, IMF WEO, Barclays Research

**FIGURE 6. PANAMA36Ns trade 17bp inside MEX36s**



Source: Bloomberg, Barclays Research

**Summary of EM Sovereigns**

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**Latin America**

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	<b>Old</b>	<b>New</b>
Panama	Underweight	Underweight

Source: Barclays Research

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**Primary Issuers/Bonds**

**PANAMA GOVERNMENT INTERNATIONAL BOND**, Underweight, CD/J

**Valuation Methodology:** While Panama met its 4% of GDP NFPS fiscal deficit target in 2025, the central government deficit remained above 5% of GDP and public debt levels rose 3.5pp. Panama's recent debt swap has further underscored the credit's technical strength. Nevertheless, public debt levels have risen by 27pp over the past seven years, and debt is likely to remain in the mid-to-high 60s (as a % of GDP). At current valuations, we do not think that that Panamanian bonds provide a sufficient margin of safety given the risks of fiscal slippage, higher gross financing needs, politics, and the eventual reopening of Cobre Panamá.

**Risks that May Impede Achievement of the Rating:** Positive: Deferred issuance, mine reopening progress, technicals/positioning, and revenue/tax reform

Representative Bond: PANAMA 6 7/8 01/31/36 (USD 110.25, 18-Feb-2026)

**Materially Mentioned Issuers/Bonds**

**MEXICO GOVERNMENT INTERNATIONAL BOND**, A/CD/D/E/J/K/L/M

MEX 6 05/07/36 (USD 102.37, 18-Feb-2026)

**PANAMA GOVERNMENT INTERNATIONAL BOND**, Underweight, CD/J

PANAMA 6 7/8 01/31/36 (USD 110.25, 18-Feb-2026)

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For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

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##### **Market Weight (MW):**

The analyst expects the six-month excess return of the country's index eligible bonds to be in line with the six-month excess return of the Bloomberg EM USD Sovereign Index\*.

##### **Underweight (UW):**

The analyst expects the six-month excess return of the country's index eligible bonds to be less than the six-month excess return of the Bloomberg EM USD Sovereign Index\*.

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