



INVESTMENT OPPORTUNITIES AND BUSINESS CLIMATE IN PANAMA

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WELCOME TO PANAMA!

A wonderful small country that offers opportunities for everyone.

- ▶ Panama, your perfect destination for Sustainable Investments
- ▶ Only Panama has so many advantages: a dynamic and growing economy, incomparable connectivity, a safe environment and the benefits of various special regimes for foreign investment with attractive tax, labor and immigration incentives.



GENERAL INFORMATION OF INTEREST

- ▶ The Republic of Panama offers benefits for investments of all kinds and from all over the world.
- ▶ In 2019, we were selected as the country in Latin America with the highest entry of Foreign Direct Investment (FDI), with B/.4,320,376,000.00 by the Economic Commission for Latin America and the Caribbean (CEPAL).
- ▶ With a privileged geographical position, free from natural disasters, Panama offers excellent quality of life, global quality medical services, high technology and robust and reliable broadband communications, political and legal stability, sustainable and attractive investment regimes, commercial openness and Access to important international markets.
- ▶ The legal tender is the US dollar, it has a world-class banking and financial center, which is home to more than 65 Banks around the world, developing transparent transactions in any currency.
- ▶ Panama seeks to attract investments whose actions are aimed at consolidating our Logistics Hub, Digital Hub, Food Hub, Tourism and the portfolio of large social and economic investment projects of the Public - Private Association (PPP).
- ▶ We invite you to be one of the many successful companies that have established themselves in Panama; using all the advantages that our country offers to place its products in international markets in an expeditious, efficient, competitive and sustainable manner.
- ▶ We can guide and offer a series of services to investors, such as advising them on benefits and investment regimes, providing information and support to entities interested in investment in Panama, and supporting them with the connections required to make their business a reality.

GENERAL INFORMATION OF INTEREST

Location

Panama is in the middle of the American continent. It is bordered to the North by the Caribbean Sea, to the South by the Pacific Ocean, to the East by Colombia and the West by Costa Rica. It has an area of 75,517 square kilometers.

Administration Division

The current political-administrative division comprises 10 provinces and 6 indigenous regions. Panama City, capital of the country, is the largest and most populated city, with 1,551,766 inhabitants in its metropolitan area, according to data from the National Institute of Statistics and Census of Panama.

GNP

- TOTAL GDP: US\$ 66.8 billion (nominal 2019).
- Growth rate % PIB 2.7% (nominal 2019 vs 2018)
- GDP per Capita US\$ 16,245 (2019).
 - GDP by sector:
 - Agriculture: 2.14%
 - Industry: 15.7%
 - Services: 82%

Currency

Since 1904, the US Dollar has circulated alongside the Panamanian currency, the Balboa, which has parity with the United States currency. 117 years using the US Dollar as legal tender.

Brokerage House

As of October 30, 2021, the Brokerage Houses had registered stock transactions in the amount of US\$ 70.2 billion dollars.

US\$ 45 billion correspond to the international market. US\$ 25.2 billion correspond to the local market

Weather

Panama has a tropical climate throughout the year in the lowlands and a temperate climate in the highlands. At sea level the annual average temperature is 27° C / 80.6° F. There are 2 seasons: Dry (December - April) and Rainy (May - November).

Language

The official language is Spanish. English is spoken frequently.

Population

4.2 million (2020)

Government

Democratic, Presidential Republic. Unicameral Parliament (Legislative Assembly).

A new President of the Republic and a new Parliament are elected in May, 2024.

Customer Deposits at the CBI

As of September, 2021, assets of International Banking Center totaled US\$ 131,200 million, which represents an increase of USD 833 million compared to the same month of the previous year. CBI deposits as of September, 2021 amount US\$ 97,711 million.

▶ Extremely attractive tax incentives

▶ Security policies to protect investors

▶ World-class logistics is not a slogan, it is part of our culture

- 3 ports
- 1 airport
- Panama Canal
- Colón Free Zone
- Railway
- 3 Free Zones

- 2 ports
- 2 airports
- Panama Canal
- Railway
- 8 Free Zones
- Special Economic Area

- 1 International Airport
- 7 Free Zones



PANAMA: THE PLACE TO BE

PANAMA CANAL

Now for the next 100 years.

While Panama has had a significant western influence through its connection to the United States, it has attracted significant attention from Eastern partners such as China.

As China seeks to boost its trade with the rest of the world in the wake of the pandemic, it has identified Panama's potential as a benchmark for distribution.

CONNECTIVITY

Panama is the best connected country in America.

Grow your business with the global connectivity of Panama. Due to its unique position in world trade, Panama is a bridge for new business opportunities that Benefit from valuable logistics assets by air, sea and land. Panama is the only country in the world with a terminal with access to 2 oceans, Atlantic and Pacific. Their annual cargo movement of more than 7 million containers a year defines them as the most active ports in Latin America, moving around 164,628 tons of cargo in 2019.

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PANAMA: THE PLACE TO BE

2nd BEST PLACE IN THE WORLD FOR RETIREMENT

International Living recommends Panama as a destination where you can live healthier and happier, spending much less money

SPECIAL COMPETITIVE REGIMES

Panama offers competitive incentives, tax rates and policies to global companies to facilitate business.

INTERNATIONALLY CONNECTED

Panama's role as a global gateway is the central and indispensable story in the country's commercialization to attract international investment.

PROVEN RELIABILITY + GROWTH

Through a stable and sovereign democracy, Panama has forged a path of economic progress and relative peace over the past century to earn the trust, investment and attention of multinationals and governments alike.

PANAMA: THE PLACE TO BE

PROVEN IN PANAMA

Trusted by multinational companies from all over the world installed in Panama, thanks to business-friendly policies that have allowed investments by more than 170 multinational corporations.

WHY INTERNATIONAL BUSINESSES INVEST IN PANAMA?

During the last decade, Panama has experienced remarkable economic progress, having doubled its per capita income in the span of ten years. Panama has stood out for fostering a competitive service sector for all activities related to the Canal, such as logistics, transportation, financial services, communications, and commerce. At the same time, the Panamanian government has actively promoted policies to attract foreign companies and stimulate innovation, through the creation of a series of Special Economic Zones (SEZs).

PANAMA CANAL: INVESTMENT COMMITMENT

Panama Canal presents investment plan for US\$ 32,500 million

The authorities of the sea passage revealed the investment plan for the next decade, highlighting their commitment to reducing carbon emissions.



“This investment plan, which highlights the contribution of the workforce, includes the execution of the decarbonization program in operations and that of water projects, the latter aimed at supplying water for the country’s population and the operation of the road”, says the statement.

Authorities recalled that, among the goals, is for the Canal to generate electricity from renewable sources; minimize carbon footprint and capture CO2 through nearby wooded areas. To do this, says the statement, they requested the acquisition of 8,000 hectares to allow them to expand environmental protection programs. In total, they expect to allocate between US\$ 500 million and US\$ 1,500 million over the next ten years for this initiative.

PANAMA CANAL: INVESTMENT COMMITMENT

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In September 2021 the Panama Canal signed together with 150 organizations a call for the industry to commit to decarbonizing international shipping by 2050. Among the signatories were A.P. Moller - Maersk; BW LPG, Hapag-Lloyds; Mitsui O.S.K. Lines; MSC Mediterranean Shipping Company and the Port of Rotterdam.

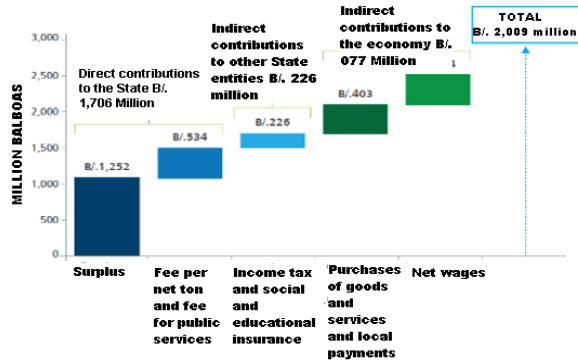
“At the beginning of this year, we set a strategic goal of becoming a carbon neutral entity by 2030, while maintaining our commitment to participating in maritime industry efforts around the world”, said Panama Canal Administrator, Ricaurte Vasquez Morales.

PANAMA CANAL: INVESTMENT COMMITMENT

Panama Canal presents investment plan for US\$ 32.5 billion

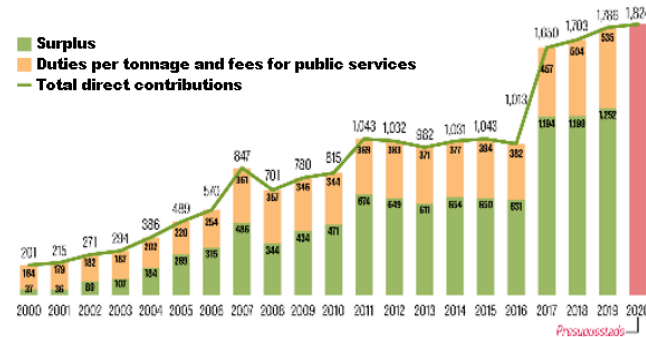
The authorities of the maritime passage revealed the investment plan for the next decade, where they highlight their commitment to reducing carbon emissions.

Impact of the Panama Canal in the national economy



Direct contributions to the National Treasury

In million Dollars



Infografía LP - Fuente: ACP

During the first two decades of Panamanian administration, the Canal contributed US\$ 18.642 billion to the National Treasury, and went from having revenues of US\$ 2.5 billion in 2016, to about US\$ 4 billion so far in 2021. In addition to the National Treasury, it is projected to deliver about US\$ 21.5 billion over the next 10 years. During the decade that begins, US\$ 32.500 Million + US\$ 21.500 Million = US\$ 54.000 Million that will positively impact the Panamanian economy are at stake.

INVESTMENT OPPORTUNITIES

Logistics Hub

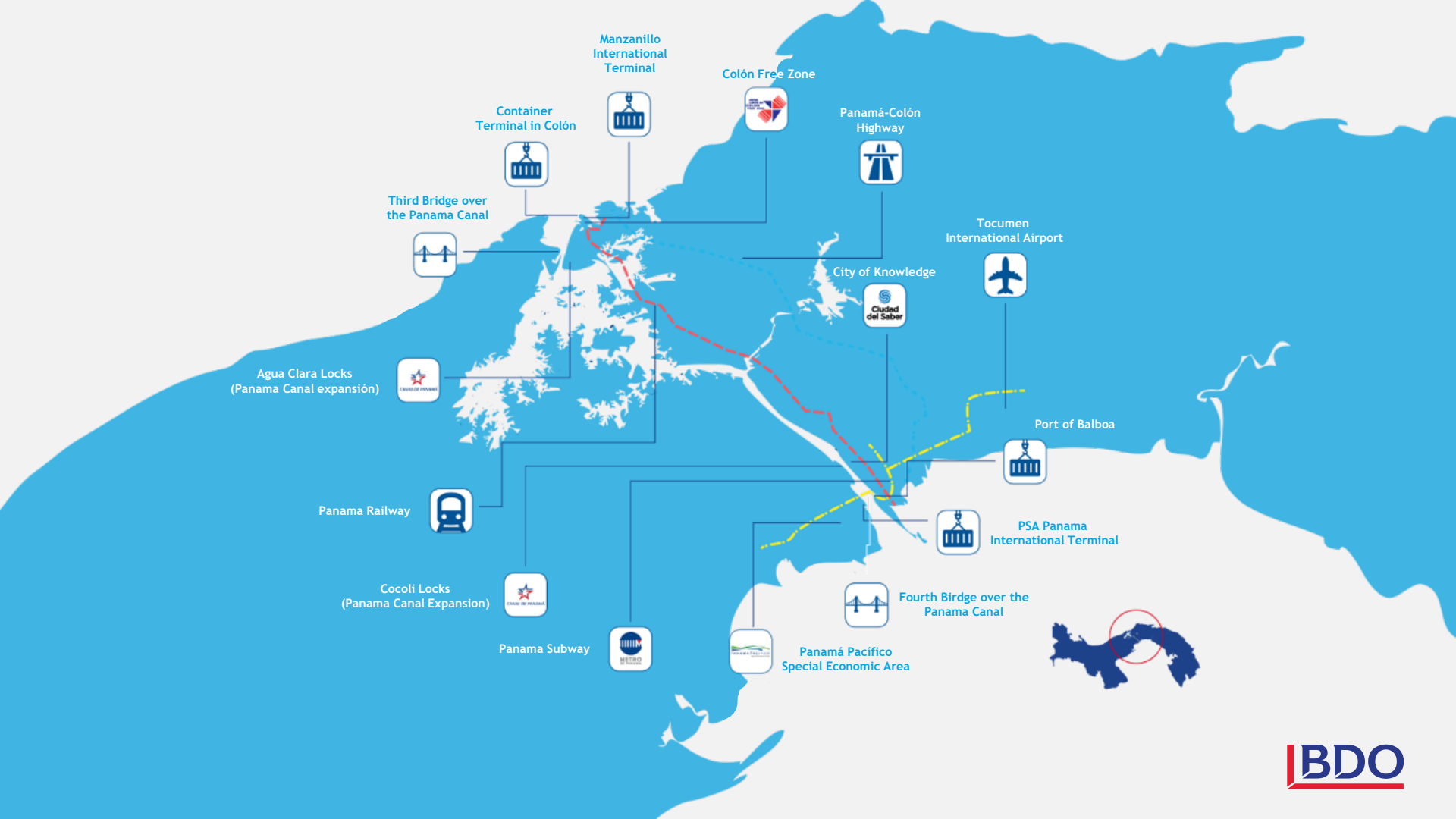
- ▶ **Cargo Services.** Shipping and receiving cargo directly to and from 152 ports and 54 countries.
- ▶ **Maritime Services.** More than 11 shipping lines offer services from Panama to 144 sea routes, reaching 1,700 ports in 160 countries.
- ▶ **Port Services.** 5 of the top 10 ports in the region are in Panama.
- ▶ **Railway.** The railway carries around 650,000 TEUs a year.
- ▶ **Flights.** From Panama, 90 destinations in 38 countries in 2019.
- ▶ **World-class infrastructure ports on both oceans.** Panama has three ports in the Atlantic Ocean and two in the Pacific. Colón, located on the Atlantic, is the largest port city in Latin America.
- ▶ First-class infrastructure and outstanding logistics assets define Panama as the center of excellence for regional and global distribution and logistics.
- ▶ Currently, 23% of port cranes in Latin America are located in Panama.
- ▶ Panama also has a rail system parallel to the Canal that serves as a dry canal between the Atlantic and the Pacific; and, the last piece of the Logistics Services system is Panama's air connectivity.

INVESTMENT OPPORTUNITIES

Logistics Hub

- ▶ Panama offers a unique access point to Latin America and the Caribbean.
- ▶ The first and best known element of our Logistics Services Center is the Panama Canal, which moves 6% of world trade and is connected to:
 - 1,920 ports worldwide.
 - Through 180 sea routes.
 - They serve more than 170 countries directly from Panama.





Manzanillo
International
Terminal

Colón Free Zone

Panamá-Colón
Highway

Container
Terminal in Colón

Third Bridge over
the Panama Canal

Tocumen
International Airport

City of Knowledge

Agua Clara Locks
(Panama Canal expansión)

Panama Railway

Cocoli Locks
(Panama Canal Expansion)

Panama Subway

Panamá Pacífico
Special Economic Area

Fourth Bridge over the
Panama Canal

Ciudad
del Saber

Port of Balboa

PSA Panama
International Terminal

INVESTMENT OPPORTUNITIES

Digital hub

Advantages of Panama:

- Seven (7) of the most important fiber optic sections in the Americas.
- According to Google, Panama has the greatest potential in Latin America to become the Digital Hub.
- We are a natural destination to host the data of large companies and governments thanks to a legal framework that protects data privacy.
- Multilateral studies indicate that an Internet Exchange Point (IXP) should be held in Panama.
- Savings of up to 38% of interconnection costs throughout Latin America.

PANAMA DIGITAL HUB is the Strategy for the Development of the Information and Communication Technologies (ICT) Sector for the next 10 years, whose main objective is that Panama is a Digital Innovation Center.

PANAMA DIGITAL HUB has 4 pillars: human talent, physical and social infrastructure, financial resources and legal -regulatory framework. The strategy creates a map of coordinated programs and projects to achieve strategic objectives to promote cluster relationships and sufficient resources to make the ICT sector competitive internationally.

Panama has Executive Decree 455 to promote the Development of the Digital Economy and Support the Panama Digital Hub Strategy.

Panama seeks to position itself as a Hub of Technological Innovation of Knowledge and Innovation, it has a robust infrastructure.

INVESTMENT OPPORTUNITIES

Food Hub

- ▶ Special Regime. **Agroparks.**

Law No. 196 of 2021 creates the special regime for the establishment of operating and development companies of **Agroparks** and establishes provisions for its operation.

- ▶ The revitalization of the local agricultural sector leads to other complementary industrial opportunities, such as food processing and manufacturing, as well as research and development.

- ▶ **Agroindustrial Products.** The exportable offer of agro-industrial products has incorporated a variety of products made from the processing and preservation of fruits, legumes and vegetables, the preparation and preservation of seafood, fish, meat and dairy products, among others. Specialized artisan products of the Gourmet type stand out.

- ▶ Taking advantage of logistical strengths to redistribute the world's food supply.
- ▶ In the strengths of Panamanian logistics there are opportunities for the agricultural and food processing industry.

- ▶ With the increase in transshipment and the expansion of global logistics traffic, local Free Zones can invest in specialized warehouses and other services to improve Panama's logistics offer.

INVESTMENT OPPORTUNITIES

Free Zones

TYPES OF FREE ZONES IN PANAMA

- ▶ **Private.** Those whose investors are natural or legal persons, national or foreign.
- ▶ **Public.** Those whose only investor is the State.
- ▶ **Mixed.** Those whose ownership is shared between the State and domestic or foreign investors.

Industries:

- ▶ Manufacturing, assembly, processing of finished or semi-finished products, high technology.
- ▶ Logistic, environmental, health, and miscellaneous services.
- ▶ Higher education and research centers.

The Free Zones are part of a special, comprehensive and simplified regime for the establishment and operation of companies that contribute to the development of the country and the generation of jobs and foreign exchange and are incorporated into the global economy of goods and services, promoting investment. Currently, there are 12 active free zones, 6 in development, and they can be established in almost the entire national territory. They can be private, state or mixed.

- ▶ Exemption from taxes and import duties on materials, goods and services required for the operation.
- ▶ Developers are exempt from income tax on leasing and subleasing.

INVESTMENT OPPORTUNITIES

Free Zones

- ▶ Permanent Resident Permit as an investor.
- ▶ Temporary Resident Permit as trusted personnel, executives, experts and / or technicians, valid for the term of the contract.
- ▶ Short-stay visa as a Merchant and Investor, by special laws, valid for nine months, to carry out transactions or business in processing zones for export.
- ▶ Rotation of workers is allowed.
- ▶ The holiday period may be agreed between the parties.
- ▶ The overtime will be remunerated with a single surcharge of 25% on the salary.
- ▶ Work on a national holiday or national day of mourning will be paid with a surcharge of 50% on the salary of the ordinary day.



INVESTMENT OPPORTUNITIES

Multinational Companies Headquarters

Special regime created for the establishment of SEM, companies that operate as a foreign company registered in Panama or as a Panamanian company owned by a transnational company. Its objective is to provide services to its parent company or subsidiary in other countries.

Sectors/Industries:

- **Logistics**
- **R&D**
- **Electronic processing and consolidations of operations of the business group**
- **Construction and design**
- **Financial Management, for Companies/BPO**
- **Internal technical assistance, advice and coordination of marketing and advertising**
- **Administrative Management of Regional Operations.**

- ▶ Legal stability for investments referred to in Law 54 of 22 July 1998 and Executive Decree No. 9 of 22 February 1999.
- ▶ **Reduced rate:** 5% Income Tax in the Republic of Panama for the services provided.
- ▶ Services do not cause ITBMS as long as they are provided to the business group abroad.

- ▶ Permanent visa (5 years) for foreign executives in permanent positions and their dependents.
- ▶ Permanent residence for the permanent staff of the SEM company.
- ▶ 3-month visa for foreign technical staff hired for short periods for SEM company projects.

INVESTMENT OPPORTUNITIES

Multinational Companies Headquarters

+170 Multinationals established in
Panama since 2007.

+5,500 Jobs generated.

+ US \$ 8,800 Millions
invested

CALIFICACIÓN DE RIESGO SOBERANO

Country	Rating Variation	Trend	Current Perspective	Investment Grade Category
Chile	AA- to A	Deterioration	Stable	High Medium
Peru	BBB- to BBB+	Improvement	Stable	Low Medium
Uruguay	BB+ to BBB	Improvement	Stable	Low Medium
Panama	BBB+ to BB+	Deterioration	Stable	Low Medium
Colombia	BBB to BB+	Deterioration	Stable	Speculative
Mexico	BBB+ to BB	Deterioration	Stable	Speculative
Brazil	BBB to BB-	Deterioration	Stable	Speculative
Bolivia	BB to B+	Deterioration	Negative	Highly Speculative

	Fitch	Moody's	S&P	DBRS
Investment Grade	AAA	Aaa	AAA	AAA
	AA	Aa	AA	AA
	A	A	A	A
	BBB	Baa	BBB	BBB
Speculative Grade	BB	Ba	BB	BB
	B	B	B	B
	CCC	Caa	CCC	CCC
	CC	Ca	CC	CC
	C	C	C	C

EVOLUTION OF PANAMA'S INVESTMENT GRADE

MOODY'S			
YEAR	MONTH	GRADE	PERSPECTIVE
2010	June	Baa3	Stable
2011	August	Baa3	Positive
2012	October	Baa2	Stable
2015	December	Baa2	Stable
2017	September	Baa2	Positive
2019	March	Baa1	Stable
2020	October	Baa1	Negative
STANDARS & POORS			
2010	May	BBB-	nd
2011	July	BBB-	Positive
2012	July	BBB	Stable
2018	July	BBB	Positive
2019	April	BBB	Stable
2020	April	BBB+	Negative
2020	November	BBB	Stable
FITCH RATINGS			
2010	March	BBB-	Positive
2011	June	BBB	Stable
2012	May	BBB	Stable
2015	February	BBB	Stable
2017	February	BBB	Stable
2018	February	BBB	Stable
2019	February	BBB	nd
2020	February	BBB	nd
2021	February	BBB-	Negative

Source: DataMacros.

MACROECONOMIC BEHAVIOR AND GROWTH

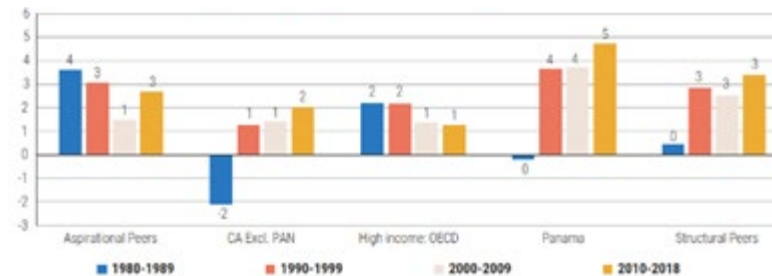
Historic context

With an average growth rate of 6 percent since 1990, Panama has been one of the fastest growing economies globally, enjoying a high per capita income and a stable macroeconomic environment. Panama's real GDP per capita growth averaged 3.9 percent during the 1990-2008 period and 5.1 percent during the 2010-2017 period, outperforming its structural, aspirational and regional comparators.

Thanks to this sustained growth rate, only briefly interrupted by global economic crises, Panama's real GDP per capita doubled relative to that of the United States during the period 1990-2017, from 11 percent in 1990 to 22 percent in 2017. Its absolute GDP per capita doubled in the last 15 years (from USD 5,866 in 2004 to USD 11,723 in 2018), the largest increase in Latin America.

Source: World Bank 2021

Image 1. Real GDP per capita growth rate by decade



Fuente: los autores con base en datos de los IDM y WEO.

Image 2. Panama's real GDP per capita growth rate



Fuente: los autores con base en datos de los IDM y WEO.

FOREIGN DIRECT INVESTMENT (FDI)

- ▶ The flow of foreign direct investment (FDI) to Panama was historically important and grew over time, in line with the global trend beginning in the 1990s. Arguably, FDI, a stable source of financing for current account deficits, also supported the productivity gains that have taken place over the past twenty years. As a percentage of GDP, FDI increased from 1 percent in the 1980s to 9 percent in the 2010s.
- ▶ The average annual growth rate of FDI in Panama over the past twenty years exceeded that of its structural comparators and the Central American average, although it remains slightly below its aspirational comparators. The expansion of the Canal and the construction of infrastructure projects such as the Panama City metro attracted foreign investment in the 2000s.
- ▶ Likewise, the improvement in the business environment contributed significantly to the increase in FDI flows. FDI finances a good part of current account deficits and sustains Panama's GDP growth: an increase of one percentage point in the FDI / GDP ratio is associated with an increase of 0.6 and 0.8 percentage points in short-term and long-term growth rates, respectively. FDI is heavily concentrated in services such as telecommunications, transportation, commerce, and finance.

Source: World Bank 2021

Image 6. FDI Flow (% of GDP)



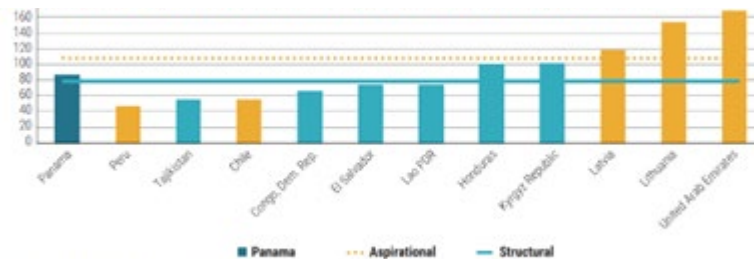
Fuente: IEDM.

DIVERSIFICATION AND EXPORTS

Export - oriented growth

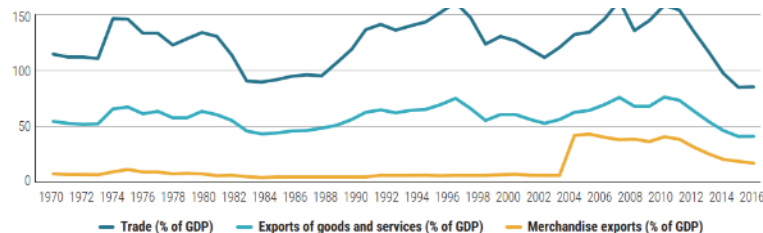
- ▶ Global trends, such as slowing trade growth, growing trade in services, and fragmentation of production and automation, pose challenges and opportunities for developing countries.
- ▶ Increased trade in intermediate goods and task segmentation of production resulted in regional and global value chains (GVCs). Signing meaningful free trade agreements was the way to attract new disciplines that allow factories to connect seamlessly across borders.⁷⁷ Value chains offer low- and middle-income countries the opportunity to diversify their production and new ways of exporting tasks, services, and other activities.
- ▶ Since Panama is a small open economy, an export strategy would be a wise choice to create jobs and generate sustainable growth. Economic diversification is the shift of production and trade towards a broader productive structure in order to raise productivity, generate jobs and foster sustainable growth to reduce poverty.⁷⁸ Trade plays an important role in economic diversification.

Image 38. Trade as percentage of GDP, average 2016-18



Fuente: personal del Banco con base en los IDM.

Image 39. Trade, merchandized exports and export of goods and services in Panama (% of DGP)



Fuente: personal del Banco con base en los IDM.

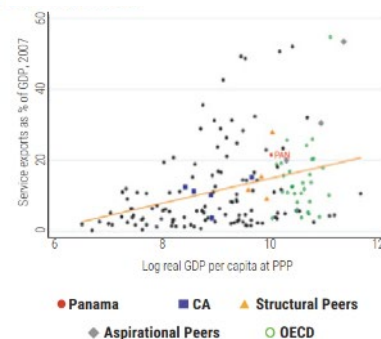
Panama seems to be more open than other countries with the same level of development, exhibiting a higher level of exports and imports as a percentage of GDP than most of its comparators. At 87.4 percent, Panama's trade openness (exports and imports as a percentage of GDP) is greater than the average openness of its structural comparators (79.5 percent). Nonetheless, it is still lower than average for its aspirational comparators (110 percent).

DIVERSIFICATION AND EXPORTS

Exports of Services

- ▶ Once re-exports are removed from the equation, Panama's net exports are mostly concentrated in services. Panama transformed itself into a logistics and commercial center, thanks to its geographical location, including the Panama Canal. As a result, Panama imports and re-exports many goods, generating transportation services in return. In 2017, almost 94 percent of total exports were concentrated in services.
- ▶ Panamanian services exports are at a higher level than expected for its GDP. The behavior of services exports as a percentage of GDP is above that expected for Panama's per capita income level. Within the regional context, Panama and Costa Rica surpass all their Central American neighbors.
- ▶ Exports of services are concentrated in transport and tourism. Due to traffic passing through the Canal, shipping accounted for 30 percent of services exports in 2018.
- ▶ The Panamanian airport network allows the country to function as a large regional air hub, connecting passengers from North, Central and South America. Tourism more than doubled between 2010 and 2018 and today accounts for 20 percent of services exports.

Image 40. Exports of services as a percentage of GDP



Fuente: personal del Banco con base en los IDDM.

Image 41. Composition of services exports, 2010 and 2018

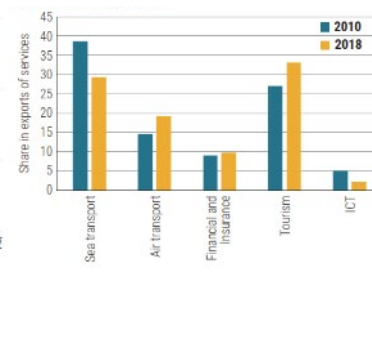


Table 2. Export of services (millions of dollars, 2010-18)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Marine transport	2492	2826	3104	3036	3207	3417	3352	3856	4071
Air Transport	939	1203	1628	2072	2175	1947	2173	2524	2664
Travels	1745	2519	3064	3533	3729	3948	4223	4460	4608
Computer & Telecom. Services	327	349	301	303	308	278	293	286	291
Insurance and pension services	123	140	154	138	120	226	227	263	230
Financial Services	463	647	1087	1073	989	1244	1258	1223	1129
Information Services	0	0	6	8	8	8	8	8	8
Other business Services	234	277	377	377	664	547	515	534	547
Other Services	90	149	249	261	238	251	279	274	241
Total	6412	8109	9970	10 801	11 438	11 866	12 327	13 427	13 789

OTHER GROWTH OPPORTUNITIES

- ▶ There are additional growth opportunities in transportation and logistics. The transport sector is the most important in Panama; given its preponderance, it is expected to remain the main driver of economic growth. The growing volume of cargo expected to pass through the expanded Canal will generate increased demand for transport, storage, insurance and logistics services.
 - ▶ Financial services could benefit from the expansion of logistics and transport services. The logistics and transport industries are naturally complemented by financial services through financial intermediation. The expected growth in terms of logistics and transport could underpin demand for financial services locally and internationally.
 - ▶ Tourism is a vital sector with enormous potential to continue growing. The fact that Panama is a great hub for international air transport, offering tourists the opportunity to get to know its beaches, mountains and jungles, as well as a vibrant metropolitan city, makes the country more attractive than other regional destinations.
- ▶ Institutions need to be improved and the standard of education needs to be increased to serve as complementary sources of comparative advantage in the most complex goods and services. Value-added content or the complexity of services are not homogeneous. For example, professional services are more complex than hotel services.
 - ▶ Strengthening the ICT sector and improving the country's internal transport network is crucial to increasing competitiveness. The ICT sector is not only important as a source of growth, but also because it is a key input to trade integration, private sector development and the provision of public services. ICTs play a key role in the development of global value chains and in the transfer of parts of the production process to different countries.
 - ▶ To build on and build on pre-existing advantages, Panama will need to put in place policies that address its weaknesses and underpin its strengths.

OTHER OPPORTUNITIES OF GROWTH

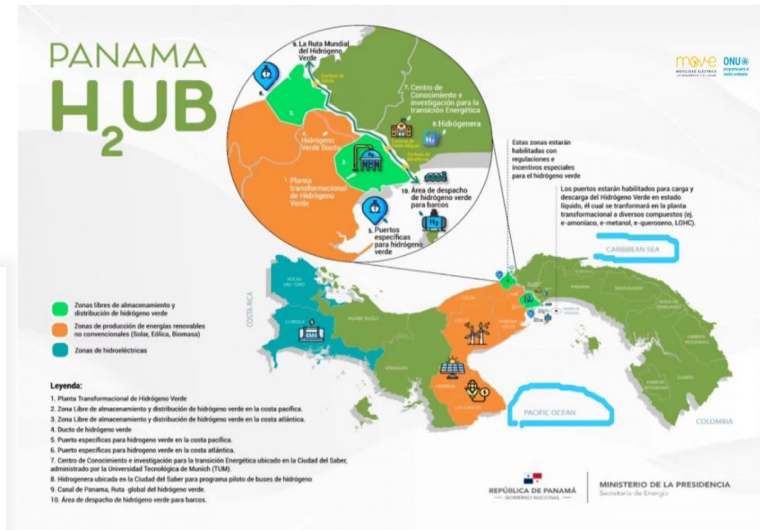
A glass terrarium containing a small green plant with two leaves, resting on a rocky surface. The terrarium is filled with soil and small white pebbles. The background is a blurred natural setting with rocks and foliage.

- ▶ Implementation of measures to boost women's participation in the workforce. This is low compared to men's participation; calculations for this report indicate that it could give growth a boost in the short and medium term. The results of a computable general equilibrium (CGE) model show that increasing women's participation in the labor force to half the level of men would raise GDP by 6.4 percent by 2030.
- ▶ Panama has demonstrated adaptability and is in a position to implement the necessary reforms to change its growth trajectory. However, putting in place the reforms needed to improve institutions and skills takes time. It is key that these efforts begin as soon as possible to facilitate a smooth transition from an infrastructure-based growth model driven by the capital city to one based on higher skills-driven productivity and greater regional development.

INVESTMENT OPPORTUNITIES

Decarbonization Hub + Green Hydrogen

- ▶ The ETA (Energy Transition Agenda) can position Panama as an energy HUB of clean technologies at the forefront of the Latin American and Caribbean region. Panama's location and logistical conditions are unbeatable for the establishment of regionally integrated local value chain production centers.
- ▶ Panama has the necessary conditions to become one of the leading countries in the export of Green Hydrogen and its derivatives.
- ▶ Panama is a country blessed by nature. With its strategic location, and access to both oceans, its territory has served as a link and meeting point between cultures since pre-Hispanic times, and today it is a fundamental element of world trade.
- ▶ The ETA proposes to increase the use of renewable energy other than hydroelectric, mainly wind and solar, and includes the development of strategies around the production and distribution of Green Hydrogen in and from Panama.
- ▶ The energy transition agenda is part of the necessary axes of Decarbonization, Digitalization, Decentralization and Democratization of energy (the so-called 4Ds), which in turn must be valued taking into account the energy policy objectives that remain fully valid such as Security, Reliability, Accessibility, Affordability and Sustainability, while making the projection of its impact in the short, medium and long term.



INVESTMENT OPPORTUNITIES

Decarbonization Hub + Green Hydrogen

01. 	Develop a fund for studies and pilot projects necessary to implement the guidelines of the Energy Transition Agenda with contributions from energy sector actors.
02. 	Develop a financing plan for R & D & I with which the national research ecosystem contributes to the needs of the country.
03. 	Promote the creation of a fund for the energy transition.
04. 	Develop alliances between second-tier banks, national banks, and international cooperation mechanisms for the creation of tools that make green funds available to the energy sector.
05. 	Propose to the Ministry of Economy and Finance to implement a Green Financing Directorate.
06. 	Work together with the Ministry of Economy and Finance and the General Directorate of Public Procurement, in innovative contracting schemes such as the Energy Services Companies (ESCOS) that facilitate access to financing for projects for their execution.

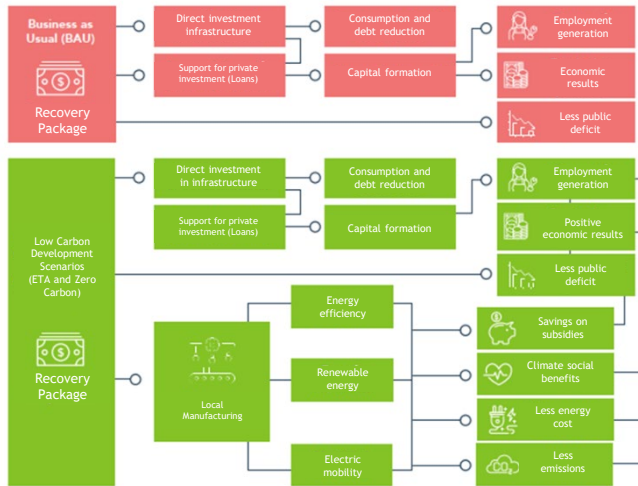
- ▶ Promote accessibility to financial resources for the energy transition at the national level. At the international level, it can be seen that investment in the energy sector is directly related to the financing conditions of each country. Financing is, therefore, the necessary support to provide funds and make the necessary investments to carry out the energy transition and guide this process so that it is optimized. In this sense, the role that the financial sector plays in achieving emission neutrality acquires greater emphasis on the idea of maintaining the momentum to the decarbonization of the economy as one of the key stimuli for the recovery of the business fabric and the strategy established by the SNE.
- ▶ In this situation, it could be difficult for the State, through public support, to have the capacity to fully meet the needs and pace required by the ETA. But it also opens a door to the promotion of greater public/private collaboration, as well as putting in place mechanisms to provide the necessary confidence to investors that can be very useful to promote the energy transition. Aspects as relevant as the acceleration of digitalization in infrastructures, processes and relationships between people; advances in R&D&I to optimize the allocation of existing and new resources available, or the development of technologies that favor the transition must continue to attract those investments that are viable. Many of the financing mechanisms that have been used in the energy field will continue to be so in the coming years. However, measures should be considered to reduce the risks inherent to these and create new ones.

INVESTMENT OPPORTUNITIES

Decarbonization Hub + Green Hydrogen

Design incentives and programs to stimulate the creation of local supply chains, to benefit more fully from the demand that will be generated through the fulfillment of the emission reduction targets in the energy transition agenda (for example, electric vehicles, efficient appliances, renewable energy technologies). In this sense, Panama has already taken the first steps, and it is necessary to continue promoting the local production of technologies for the transition.

Figure 1. The opportunity to integrate the energy transition into Panama's post-COVID19 economic recovery plan.



*Improved health and air quality, fewer traffic accidents and congestion and lower carbon costs.

Note: Based on UNEP (BAU, ATE and Carbon Zero) scenarios for 2020 – 2050

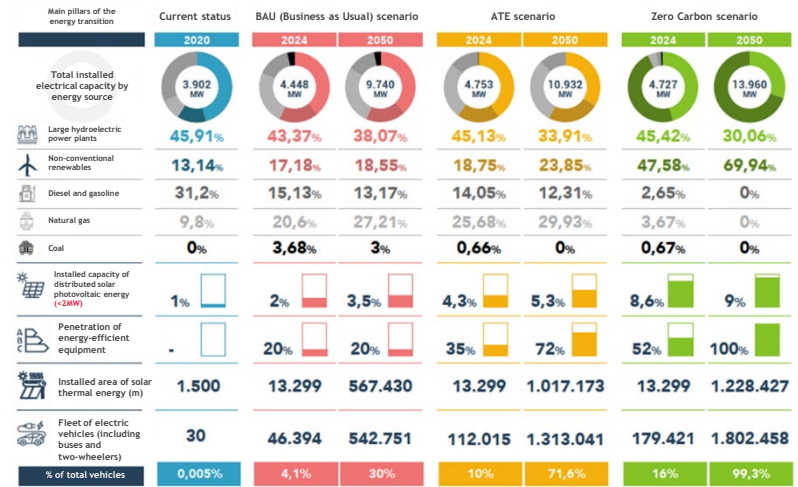
- ▶ Include low-carbon investments in the post-COVID-19 economic recovery package, focusing on creating the necessary market conditions to provide certainty to the private sector and thus lay the foundations for investments in the main pillars of the energy transition for the coming years (e.g. electric vehicle charging infrastructure, electric buses and railways, the incorporation of solar thermal energy, distributed photovoltaics and the use of LED luminaires in the rehabilitation of schools, homes, public buildings and road infrastructures).
- ▶ Design incentives to stimulate private investment, both for households and the business sector, towards clean technologies of the energy transition (e.g. photovoltaic solar generation systems, solar thermal systems, electric vehicles, air conditioners and efficient refrigerators). This can be done through credits with specific characteristics. Several countries have associated the inclusion of renewable and energy efficiency technologies in mortgage loans, so that the mortgage is only granted if it contemplates a technological replacement for the home to be acquired. In the case of companies, an interesting option would be to orient the credit lines foreseen in the package of post-COVID-19 recovery measures towards investment in clean technologies in specific sectors such as commercial or industrial, including also additional measures such as tax relief.

INVESTMENT OPPORTUNITIES

Decarbonization Hub + Green Hydrogen

- ▶ Eliminate fossil fuel subsidies to free up public resources and support low-carbon investments in the medium and long term, as well as pave the way for private investments to be more economically viable. Today Panama partially subsidizes the electricity tariff. This does not allow for fair competition of renewables in the market and sends a distorted signal to electricity consumers.
- ▶ Develop industrial policies, training programs and education to meet the skills required in all energy transformation industries. To enhance and maximize local value and promote equal opportunities for all workers, it is recommended to develop educational programs at all levels.
- ▶ Develop a strategy to ensure a just transition in the energy sector that helps minimize the labor market impacts caused by job losses in the fossil fuel industry.
- ▶ Establish a monitoring system to assess the volume and return of low-carbon investments.
- ▶ Establish an annual or biannual assessment of the path to net-zero energy emissions, possibly increasing the ambition of the ETA.

Figura 2. Indicadores clave de los tres escenarios basados en los pilares de la transición energética



- ▶ Totally reduce emissions related to the energy sector. It recommends designing more ambitious policies that underpin the transformation of the country's energy system and increasing investment to make the electricity system work flexibly and promote other low-carbon technologies on the market, such as new generation batteries, hydrogen and clean synthetic fuels.



IMPACT OF FDI/MINING ON PANAMA'S EXPORTS

In the last two years copper ore and its concentrates have been the main export product in the country. Preliminary figures from the National Institute of Statistics and Census (INEC), indicate that the export of goods reflected an increase of 108.7%, during the first half of 2021, where it reached the figure of \$1,664.9 million, compared to the same period of 2020, whose value was \$797.9 million. Among the most important export products were copper minerals and their concentrates, whose value was \$1,318.2 million (at the end of the first half of 2021), when last year it totaled 462 million 535 thousand dollars. The export of Copper Ores and their concentrates represent 83% of total exports of goods at the end of the first half of 2021.

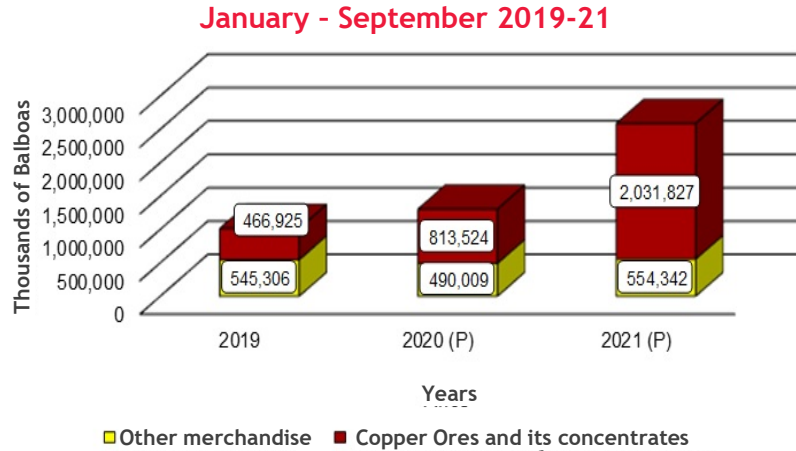
On the other hand, the monthly index of economic activity (IMAE) of Panama accumulated between January and September grew by 14.94%, compared to the same period of 2020, which demonstrates "the recovery process after the impact" on the productive apparatus of the health emergency due to the covid-19 pandemic. Only in September the IMAE, a production indicator that allows to approximate the path of economic growth of the country expanded by 18.02%, compared to the same month of the previous year, according to data from the National Institute of Statistics and Census (INEC) of Panama released on Tuesday.

In the first half of this year, Panama's gross domestic product (GDP) expanded by 10%. International risk agencies and rating agencies predict that the indicator will grow between 8% and 12% this 2021, although local analysts are less optimistic and speak of between 5% and 6%.

The expansion of the IMAE in the three quarters of the current year was driven by the mining industry, due to the export of copper ore and its concentrate, as well as by construction, by the execution of public investments and the gradual reactivation of many private projects, INEC said. Economic activity showed a positive rate in indicators such as re-export in the Colon Free Zone, and local retail and wholesale trade, as well as transport, storage and communications services, due to the good performance of the Panama Canal and the movement of containers in ports.

IMPACT OF FDI/MINING ON PANAMA'S EXPORTS

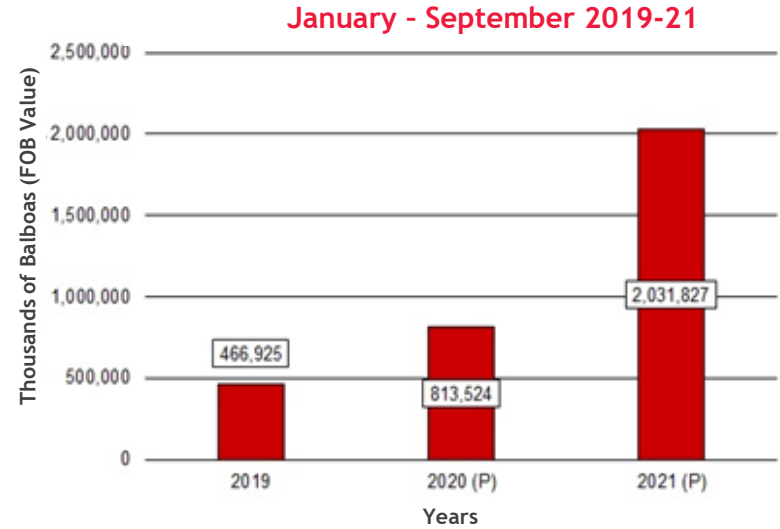
Export of Cooper Minerals and their concentrates and other merchandise of the Republic



The export of this item began in June, 2019

(P) Preliminary figures

Export of Cooper Minerals and their concentrates from the Republic



NOTE: The export of this item began in June, 2019

(P) Preliminary figures

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- ▶ Tax advice on mergers and acquisitions (M&A) transactions, including situations under Double Taxation Agreements (CDI) and transactions subject exclusively to domestic tax laws.

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- ▶ *Revista Impuestos* (Colombia)
- ▶ Tax Notes International (United States)
- ▶ MNE Tax (Multinational Tax and Transfer Pricing News) (United States)



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