

Panama Analysis

May 2014

1. Presidency

On May 4th, 2104, Election Day was held in Panama and the country chose its new president for the next five years. Mr. Juan Carlos Varela from the Partido Panamenista (PP) will be taking over the Presidency as of July 1st, 2014.

Mr. Varela, the Vice President of President Martinelli from the ruling party Cambio Democratico (CD) is expected to continue with the recent success story of Panama. Whereas the political ideas of Mr. Varela and his predecessor Mr. Martinelli do not differ a great deal, the Panamanians took a clear stand against the installation of what could be perceived as a continuous leadership of – popular – Mr. Martinelli.

The decision of CD to install Martinelli's wife as their candidate for Vicepresident reminded the majority of the population of Panama's past. This country has had its share in leaders that would not be willing to let go from power and memories of these times are still present. Despite massive support and a big campaigning budget of the CD, the people of Panama showed once again that they have their own way of thinking, also proving that country has evolved into a stable democracy.

We expect the new president to continue the path of the past years and remain very positive for the future of Panama. The international reflections on the election's outcome share the same spirit.

2. Treaties & Agreements

2.1 Free Trade Agreements (FTAs)

Panama and Mexico have finally signed an FTA after extensive and intensive negotiations over the past months. Said agreement should facilitate greater flows of trade and investment, and boost economic growth and development for both countries. With this FTA, Panama has positioned itself one step closer to becoming member of the Pacific Alliance. As discussed in our previous analysis, the Pacific Alliance is comprised of Chile, Colombia, Peru and Mexico. Costa Rica who is expected to join them in a near future, has set the path for Panama to follow its steps.

2.2 Double Tax Treaties (DTTs)

The number of negotiated DTT is currently at 19, with Austria being the latest country to have joined the list which currently includes:

Mexico	Spain
South Korea	Singapore
Italy	Qatar
Ireland	Israel
Belgium	Portugal
Czech Republic	Bahrain
Barbados	Luxembourg
Netherlands	France
U.A.E.	U.K.
Austria	

Since our last report, three (3) additional DTTs (Czech Republic, U.A.E., and U.K.) have joined the group of Mexico, Barbados, Spain, Qatar, Luxembourg, Holland, Singapore, France, South Korea, Portugal, and Ireland - making a grand total of 11 DTTs which have been ratified by both countries and are currently enforced.

Furthermore, as reported in our previous Analysis the National Assembly of Panama has ratified the DTTs with Italy and Israel but is still waiting for their counterparts to do the same.

2.3 Tax Information Exchange Agreements (TIEAs)

The number of TIEAs still holds at nine (9). Panama has signed TIEAs with the U.S., Canada and the Nordic Countries (Denmark, Sweden, Finland, Greenland, Faroe Islands, Iceland, and Norway) so far.

The only TIEA which has not been ratified by both countries and is currently not enforced is the one with Denmark. All the remaining eight (8) (U.S., Iceland, Canada, Finland, Norway, Sweden, Greenland, and Faroe Islands) are currently being enforced. Furthermore and since our last analysis, we had mentioned that a TIEA with Germany

is being negotiated. Talks are advanced but no further details have been released. It has also been reported that talks with India and Vietnam had been initialized. In addition, the possibility of negotiating a TIEA with Japan is being discussed as well.

3. OECD and the Gray List

Panama could be included in the gray list of the Financial Action Task Force (FATF) after receiving a poor evaluation from the International Monetary Fund (IMF) and failing the OECD's peer review. Despite Panama's efforts to cooperate and the introduction of changes to its legal framework, the IMF considered that there is still an important gap that needs to be closed in regards to money laundering in the Panamanian financial system. One of the issues that were pointed out in the IMF evaluation and one of the main reasons that Panama failed the OECD's peer review is the 'prolonged' timeframe until the "bearer share law" (August 7, 2013) enters into full effect, including its implementation. If you recall from our previous analysis, the law would only enter into effect in August 7, 2015 and thereafter a transitional period of three (3) years would be granted for the existing bearer shares issued before said date. In other words, bearer shares can still be used for Panamanian Corporations up to 2018.

According to the Minister of Economy and Finance, it will take at least one year to be removed again from this gray list. Furthermore, consultants have already been

hired and are scheduled to arrive in May in order to evaluate the risks involved and thereafter make the necessary adjustments. In addition, a new evaluation can only be assessed six (6) months after the previous evaluation.

4. FATCA

Although the negotiations with the United States of America regarding „FATCA“ began in autumn 2013, no final decision regarding the outcome and also no text of the agreement is known/published so far. However, as of May 1st, 2014, Panama has been included in the US treasury's list of jurisdictions that have reached agreements in substance.

There has never been any doubt in Panama that a FATCA agreement Model 1 will be signed but information regarding the developments has been scarce in recent times. In general and in contrast to other countries, this topic has so far never really played a dominant role in the public opinion - except for obviously the banking industry. Media also has hardly covered the developments over the past few months.

The talks were halted at the end of 2013 because Panama was not willing to accept an outcome which would allow the United States to pass on information received under FATCA to other countries. Talks were resumed following an initiative of the United States in February 2014 and were actually expected to be finalised in April.

However, in parts also due to the final stages of the election campaign in Panama developments remained slow until recently. We will continue to monitor the situation and will report separately as soon as the final text is known.

5. Economy and Development

Panama closed the year 2013 with a GDP growth of 8.4%. Although the economic growth did slow down when compared to the end of the year 2012 (GDP Growth of 10.2%), Panama's economy still remained strong and one of the most dynamic in the region.

Amidst the first quarter of 2014, Panama continues to progress and one of the biggest infrastructure projects that was being carried out recently has hit its inauguration date. After three (3) years since the first Metro-related excavation started, the first Metro (subway) in Central America started operating on April 5th. At the moment it only counts with one line with twelve (12) stops, but plans to expand it to three (3) lines are already under careful study.

As mentioned in our previous report, foreign investment has been playing an important role in the Panamanian economy for quite some time. The number of Multinational Enterprises that have set up regional headquarters is already above 100. Dell, ABB, Nestle, and Germany's Bayer, who recently inaugurated their new regional

headquarters, are just a few of these. Their investments are estimated to exceed USD 400 million, mobilizing about 3000 professionals from around the globe and employing an additional 2000 Panamanian businessmen.



The new metro of Panama

To give you an idea of the growth in the tourism sector during the last five years, back in 2009, the revenue generated by both Tourism and the Canal were very much alike!



Another two lines are planned

The air transportation sector also wants to keep on growing as the tourism sector is on the rise. New flights have already been announced involving Aeromexico, BlueSky and TAP making reference to flight connections from Mexico City, Grand Cayman, and Portugal respectively. Negotiations with Lufthansa have also been reported and are expected to result into regular flights to Germany as well. Panama currently has 19 commercial airlines operating in the country and is looking to expand that number throughout 2014.

One of the main objectives is to boost tourism taking into consideration the fact that the revenue generated by tourism is approximately two times higher than the revenue generated by the Canal nowadays.

With every year that passes by, the transformation of Panama into an attractive 'business capital' becomes more evident. It would be a big mistake to believe that the country only consists of the Canal. The evolution of its modern and diversified economy offers a variety of countless opportunities.

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