FitchRatings

COMENTARIO DE ACCIÓN DE CALIFICACIÓN

Fitch rebaja calificación de Panamá a 'BB+'; Perspectiva estable

Jueves 28 de marzo de 2024 - 12:41 ET

Fitch Ratings - Nueva York - 28 de marzo de 2024: Fitch Ratings ha rebajado la calificación de incumplimiento de emisor (IDR) en moneda extranjera a largo plazo de Panamá a 'BB+' desde 'BBB-'. La perspectiva de la calificación es estable. Al final de este comentario sobre acciones de calificación se encuentra una lista completa de las acciones de calificación.

IMPULSORES CLAVE DE CALIFICACIÓN

Rebaja de calificaciones : La rebaja de la calificación de Panamá a 'BB+' refleja desafíos fiscales y de gobernanza que se han visto agravados por los acontecimientos que rodearon el cierre de la mina más grande del país. Los grandes déficits fiscales y el bajo rendimiento de los ingresos han impulsado algunos de los mayores aumentos de la deuda pública/PIB y de los intereses/ingresos entre pares desde 2019 antes de la pandemia. Esto ha limitado el espacio de políticas anticíclicas que ya era más limitado en el contexto de la dolarización, y plantea una mayor vulnerabilidad a la luz de la fuerte dependencia del soberano de los mercados externos para su financiamiento. El cierre de la mina de cobre de Minera Panamá complica aún más las perspectivas fiscales y pone de relieve los crecientes desafíos de gobernanza, en opinión de Fitch.

Fitch espera que la mayoría de los probables ganadores de las elecciones de mayo de 2024 hagan algunos esfuerzos para abordar estos desafíos fiscales. Sin embargo, una esperada desaceleración del crecimiento, un tenso contexto social y la fragmentación de los partidos probablemente limitarán el margen para una acción asertiva, y reconstruir el espacio fiscal y la credibilidad llevaría tiempo.

Contrarrestando estas debilidades fiscales e institucionales, y respaldando la Perspectiva Estable, están las sólidas perspectivas de crecimiento a mediano plazo de Panamá, que Fitch actualmente no espera que se vean muy perjudicadas por el episodio minero, y se centran en las actividades logísticas y el activo estratégico de Panamá. Canal. Las calificaciones también están respaldadas por un alto PIB per cápita, una baja inflación y una estabilidad macrofinanciera anclada en la dolarización.

Cierre de mina : En noviembre de 2023, la Corte Suprema de Panamá anuló un contrato con First Quantum Minerals para la operación de la mina de cobre Minera Panamá, luego de la reacción social a la aprobación del contrato por parte del Congreso. El cierre de la mina afectará significativamente el crecimiento este año, dado que representa alrededor del 5% del PIB (a través de efectos directos e indirectos) y el 7% de los ingresos externos corrientes. También privará al gobierno del 0,5% del PIB en regalías anuales previstas y plantea la amenaza de un costoso arbitraje.

Independientemente del resultado de las elecciones, sigue siendo incierto si la mina podrá reabrirse y cuándo. Y es poco probable que esto suceda rápidamente, ya que requeriría una nueva administración para lograr un cambio importante en el sentimiento popular y superar obstáculos legales, como revocar una moratoria minera recientemente promulgada.

Fiscal Pressures Persist: The non-financial public sector deficit fell to 3% of GDP in 2023, in line with the fiscal rule (LRSF) limit, but was around 4.5% of GDP net of large extraordinary receipts. The 2024 budget projects resilient revenues despite slower growth and drought affecting the Canal, and authorizes large spending increases to comply with legal mandates for education and salaries, with an implicit deficit of 5.6%.

The authorities hope to heavily under-execute the budget to comply with the 2% LRSF limit, but this appears doubtful in Fitch's view. Fitch projects the deficit will rise to 4.7% on the loss of the one-offs, weaker Canal revenues due to the drought, higher interest costs, and other spending increases (with less under-execution than assumed by the authorities). These pressures are partially balanced by cuts to fuel and social subsidies (0.8% of GDP).

Fiscal Consolidation Challenges: Consolidation prospects will hinge on the next government's plans. Tax underperformance has been a key fiscal challenge, driving a 3pp fall in the tax/GDP ratio to 7.0% in the decade through 2023. Efforts to tackle tax evasion are underway that could help, but rate increases or cuts in exemptions might be necessary for major improvement, and would be politically difficult, in our view.

Most candidates have pledged efforts to trim operating expenditures, but if may be difficult to achieve large savings given demands for improved public services. Capex could be difficult to reduce significantly given outlays for ongoing projects, those already completed under "deferred payment" mechanisms, and new projects being pledged by most candidates.

The social security system (CSS) has a growing deficit, and focus has mainly been on ways to fund a sub-regime (SEBD) set to exhaust its reserves soon, with little appetite for parametric reforms to contain the underlying pressures.

External Market Reliance: Meeting relatively high financing needs will rely heavily on external bond markets and multilaterals, given the local market is relatively shallow and represented just 9% of net borrowing in the last five years. Panama saw strong demand for a recent USD3.1 billion issuance, but at much higher costs, highlighting a vulnerability to further adverse shifts in investor confidence. A sovereign wealth fund (with equity of 1.7% of GDP) and cash reserves (mostly held by social security) offer some financing flexibility.

Rising Interest Burden: Fitch projects gross general government debt will resume an upward path in 2024 as growth slows and the fiscal deficit widens, jumping to 60.7% of GDP. On a consolidated basis (net of CSS holdings), Fitch projects debt to rise to 56.0%, above the 53.9% 'BB' median, and to over 330% as a share of revenues, well above the 'BB' median of 190%.

Further risks could arise from additional borrowing that may be needed to settle arrears reported by the private sector, or a rescue of the SEBD should this rely on borrowing as opposed to asset transfers. Interest/revenue is projected to rise to around 17.5% this year, one of the highest among 'BB' and BBB' peers and nearly double the level of a decade ago, due to rising interest costs and erosion in the revenue base.

Fiscal Credibility Challenges: Shortcomings in Panama's fiscal framework persist. The authorities have not altered fiscal targets since a major relaxation in 2020, but compliance has depended on some one-off items and accounting maneuvers. Budgets are not well anchored around fiscal targets, as seen in the 2024 budget, which authorizes a major spending increase while also assuming this will not be executed to achieve consolidation goals.

Other legal mandates are not being delivered, including updated medium-term fiscal frameworks and audits by an independent fiscal council. Data shortcomings, historical revisions, and episodes of arrears also cloud visibility on the fiscal picture.

Governance Challenges: Issues around governance represent a growing credit challenge, having hindered progress on needed fiscal reforms (e.g. pension) and manifested in major social protests in 2022 and 2023. Panama's Worldwide Governance Score has slipped from the 55th to 48th percentile in the five years through 2022, with large falls in sub-scores for "government effectiveness" and "control of corruption", and may not yet fully reflect the upheaval surrounding Minera Panama. However, Panama's efforts to strengthen its anti-money-laundering regime enabled it to exit several "grey lists" in recent months.

Favorable Growth Outlook: Real GDP grew 7.3% in 2023, broadly closing the large output gap left by the pandemic. The mine protests had a major impact on activity, but this was offset by strong performance otherwise. Fitch expects growth to slow to 1.5% in 2024, reflecting a direct hit (3pp) from the mine closure and a moderate impact from the drought. Second-round effects from the mine closure pose some further downside risk, but Panama's better-than-expected performance in recent years poses an upside.

Fitch's base case is for growth returning to 4.5% in 2025. However, it is uncertain where Panama's post-pandemic trend growth will settle given the higher interest rate environment (affecting the key construction sector), narrower space for public works projects, and the effect the dispute around the mine (a flagship FDI project) could have on confidence and the business environment. Fitch does not expect the mine dispute to undermine growth potential, as it affects an enclave of the economy rather than the mainstay logistics activities, but this represents a risk.

Rising External Debt: The current account deficit rose to an estimated 7.4% of GDP in 2023 from 4.4% in 2022, although this was due to the build-up of inventories at free-trade-zones. This should unwind in 2024, helping the current account deficit. However, there will be some offsetting pressure from loss of the export receipts from the mine. Panama's current account deficit has a record of adjusting smoothly and quickly, but has lifted net external debt to an estimated 50% of GDP at end-2023. This is one of the highest in the 'BB' and 'BBB' categories, posing some vulnerability to shifts in external financing conditions.

Elections Loom: The May 5 elections will determine a new president and congress for the next five-year term. Recent polls show voter support spread widely among many candidates, with Jose Raul Mulino of the Realizando Metas party recently emerging as the front-runner after taking over the candidacy of ex-president Ricardo Martinelli, who was disqualified. Broad policy continuity appears likely given narrow divergence among parties in Panama on economic matters. However, the political and social backdrop for addressing difficult issues appears challenging given party fragmentation, recent social tensions and an economic slowdown.

ESG - Governance: Panama has ESG Relevance Scores (RS) of '5 [+]' for Political Stability and Rights, and '5' for the Rule of Law, Institutional and Regulatory Quality and Control of Corruption. These scores reflect the high weight that the World Bank Governance Indicators (WBGI) have in Fitch's proprietary Sovereign Rating Model (SRM). Panama has a medium WBGI percentile score of 48.1, reflecting a recent track record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity and rule of law, and a high level of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Public Finances: A significant increase in the government debt/GDP and interest/revenue burdens, or material further erosion in market borrowing conditions;

--Macro: Reduced confidence in Panama's ability to sustain relatively high economic growth rates;

--Structural: Further social instability or political gridlock that adversely affect the economy and public finances.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Public Finances: Structural fiscal consolidation that puts government debt/GDP and interest/revenues on a firm downward path;

--Structural: Evidence of improving governance, for example via enhancements in fiscal policy credibility and predictability.

SOVEREIGN RATING MODEL (SRM) AND QUALITATIVE OVERLAY (QO)

Fitch's proprietary SRM assigns Panama a score equivalent to a rating of 'BB' on the Long-Term Foreign-Currency (LT FC) IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final the Long-Term Foreign-Currency LT FC IDR by applying its Qualitative Overlay (QO), relative to SRM data and output, as follows:

--Structural: Fitch has introduced a -1 notch to reflect shortcomings in governance that are not fully captured in the Worldwide Governance Indicators that feed into the SRM. These have been reflected by the mine closure, recent social protests, and weaknesses in fiscal policy management that is of greater relevance in the absence of independent monetary policy.

--Macro: +1 notch, to offset the deterioration of GDP growth volatility variable in the SRM due to the impact of the pandemic, which Fitch expects will be temporary, and would otherwise add excess volatility to the rating.

--Public Finances: +1 notch, to reflect that the SRM classifies public debt as fully denominated in foreign currency due to Panama's use of the U.S. dollar, but the well-entrenched dollarization regime mitigates foreign exchange risk on the sovereign balance sheet.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centered averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

COUNTRY CEILING

The Country Ceiling for Panama has been downgraded to 'A+' from 'AA-', +6 notches above the LT FC IDR. This uplift reflects Fitch's view Panama's full dollarization is a longstanding and entrenched part of its economic model, which has encouraged private-sector entities to maintain strong liquidity buffers of their own in the absence of a lender-of-last-resort, and reduces the sovereign's incentives to impose transfer restrictions.

Fitch's Country Ceiling Model produced a starting point uplift of +2 notches above the IDR. Fitch's rating committee applied a +4-notch qualitative adjustment to this, under the Long-Term Institutional Characteristics, reflecting Panama's fully dollarized economy.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Panama has an ESG Relevance Score of '5 [+]' for Political Stability and Rights as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Panama has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Panama has an ESG Relevance Score of '5' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as World Bank Governance Indicators have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Panama has a percentile rank below 50 for the respective Governance Indicators, this has a negative impact on the credit profile.

Panama has an ESG Relevance Score of '4 [+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the World Bank Governance Indicators is relevant to the rating and a rating driver. As Panama has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.

Panama has an ESG Relevance Score of '4 [+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Panama, as for all sovereigns. As Panama has a track record of 20+ years without a restructuring of public debt and captured in Fitch's SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visithttps://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Panama	LT IDR BB+ Rating Outlook Stable Downgrade	BBB- Rating Outlook Negative
	ST IDR B Downgrade	F3
	Country Ceiling A+ Downgrade	AA-
senior unsecured	LT BB+ Downgrade	BBB-

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Todd Martinez
Senior Director
Primary Rating Analyst
+1 212 908 0897
todd.martinez@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Christopher Dychala
Associate Director
Secondary Rating Analyst
+1 646 582 3558
christopher.dychala@fitchratings.com

Ed Parker
Managing Director
Committee Chairperson
+44 20 3530 1176
ed.parker@fitchratings.com

MEDIA CONTACTS

Elizabeth Fogerty
New York
+1 212 908 0526
elizabeth.fogerty@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Sovereign Rating Criteria (pub. 06 Apr 2023) (including rating assumption sensitivity)

Country Ceiling Criteria (pub. 24 Jul 2023)

MODELOS APLICABLES

Los números entre paréntesis que acompañan a los modelos aplicables contienen hipervínculos a criterios que proporcionan una descripción de los modelos.

Country Ceiling Model, v2.0.1 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Rating Model, v3.14.1 (1)

DIVULGACIONES ADICIONALES

Formulario de divulgación de información de calificación de Dodd-Frank

Estado de la solicitud

Política de respaldo

ESTADO DE RESPALDO

Panamá	Respaldado por la UE, respaldado por el Reino Unido

DESCARGO DE RESPONSABILIDAD Y DIVULGACIONES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

calificaciones crediticias en nombre de la NRSRO (consulte https://www.fitchratings.com/site/regulatory), otras subsidiarias de calificación crediticia Las subsidiarias no figuran en el formulario NRSRO (las "no NRSRO") y, por lo tanto, las calificaciones crediticias emitidas por esas subsidiarias no se emiten en nombre de la NRSRO. Sin embargo, el personal que no pertenece a la NRSRO puede participar en la determinación de las calificaciones crediticias emitidas por la NRSRO o en nombre de ella.

dv01, una empresa de Fitch Solutions y una afiliada de Fitch Ratings, puede ocasionalmente actuar como agente de datos de préstamos en ciertas transacciones financieras estructuradas calificadas por Fitch Ratings.

LEER MENOS

ESTADO DE LA SOLICITUD

Las calificaciones anteriores fueron solicitadas, asignadas o mantenidas por Fitch a solicitud de la entidad/emisor calificado o de un tercero relacionado. Las excepciones se detallan a continuación.

POLÍTICA DE RESPALDO

Las calificaciones crediticias internacionales de Fitch producidas fuera de la UE o el Reino Unido, según sea el caso, están respaldadas para su uso por entidades reguladas dentro de la UE o el Reino Unido, respectivamente, con fines regulatorios, de conformidad con los términos del Reglamento CRA de la UE o del Reino Unido. Reglamento de Agencias de Calificación Crediticia (Modificación, etc.) (Salida de la UE) de 2019, según sea el caso. El enfoque de Fitch respecto del respaldo en la UE y el Reino Unido se puede encontrar en la página de Asuntos Regulatorios de Fitch en el sitio web de Fitch. El estado de respaldo de las calificaciones crediticias internacionales se proporciona en la página de resumen de entidad para cada entidad calificada y en las páginas de detalles de transacciones para transacciones de financiamiento estructurado en el sitio web de Fitch. Estas divulgaciones se actualizan diariamente.