

Panama Stands Strong Amid International Financial Crisis

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Unlike other Latin-American countries, Panama's services oriented economy is standing strong in the middle of the financial uncertainty generated by the US financial markets crackdown. Although no country is immune from the backlash of this crisis, Panamanian authorities together with the banking sector have been acting proactively, and today it is safe to say that Panama is probably one of the best places to do business in the Western Hemisphere.

Aside from the optimistic forecast on the economic side, Panama stands as one of the most stable nations in our hemisphere, politically, economically and in terms of security; with an uncompromising commitment to democracy and democratic institutions. The country's economy is globally competitive, and having the US dollar as legal tender allows Panama to boast –still- one of the lowest inflation rates in the neighborhood.

It is no secret that Panama is suffering an economic slowdown after a tremendous boom. But this small and dynamic country is – comparatively - sailing safe through the storm. Mainly, the strength has come from the mandatory liquidity percentage imposed by law to local banks, which is constantly monitored by the Banking Superintendence of Panama, giving a strong position to banks and keeping consumer trust high, regardless of the slowdown in this year's economic growth. Furthermore, prior to the economic meltdown, Panamanian banks had good options for local investments and lending, and there was less need to look out for foreign projects or investing in international markets. Hence, money deposited in Panamanian banks was subject to lower risk than money deposited in financial institutions or invested in the stock markets.

Panama has a territory of 78,200 km² and a population of over 3 million people, with a per capita income of approximately \$4,000.00 higher than that of other Central American Countries, with an economy composed primarily of services (over 75% of the GDP), developed around the financial sector, transportation and commerce generated by the Panama Canal traffic and the Colon Free Zone. Industry is the second most important sector, contributing to 12% of the GDP followed by agriculture at 7%. Panama's GDP has been constantly growing since 2004, with foreign investment pouring into real estate and tourism, the economy has grown at an average of 8%.

In addition to what has been discussed above, Panama's near future takes even a more positive twist when the Panama Canal Expansion project comes into play. As recently as two weeks ago, and after a transparent and rigorous bidding process, the construction of the new set of locks that will expand the capacity of the Panama Canal, was awarded to a top-level international consortium (Grupo Unidos por el Canal). This group will be responsible for the largest and most important contract under the Canal's expansion, with a proposed base price of US\$ 3,118,880,001.00, out of the US\$ 5,250,000,000.00 estimated value of the whole project of expansion.

Civil works will be on their way soon, and in 2014 Panama should have an expanded Canal that will benefit Panamanians, creating an important number of direct and indirect jobs, and will also contribute to increase world trade. Expansion will improve the flow of international commerce and facilitate the movement of goods through several important markets; it will increase capacity at one of the world's critical trade arteries; allow the vital "All-Water Route" to continue to grow, and create more efficient service at the Canal, which would tighten the global supply chain and help get more goods to the market faster.



Panama's modern port system, a perfect complement to the Canal, handles over 3 million TEU's per year. MIT, a port facility operated by Stevedoring Services of America, for example, is the busiest and most efficient port in Latin America. Finally, if the recently installed Administration of president Ricardo Martinelli keeps up with its promise

building a first-world metro system in Panama City as a solution to the massive public transportation chaos, more jobs will be created and the construction sector will stay busy.

After briefly laying out what is going on in Panama and what the future might bring, here are some reasons why you should consider Panama as the target of your business, as well as some guidelines to keep in mind when structuring the same:

1. **It is easy to create and incorporate a company:** The *Sociedades Anónimas* or Panamanian Corporations are regulated by Law No. 32 of 1927, which was inspired by New Jersey and Delaware corporate legislation. Corporations are the traditional business organization used when starting a business in Panama, although there are alternatives such as the limited liability company structure. In order to incorporate a *Sociedad Anónima*, you need to hire a registered agent, notarize the articles of incorporation and register them in the Public Registry of Panama.

2. **Taxes:** Registration of the company with the Ministry of Economy and Finance to obtain a tax contribution number takes only one day. Under Panamanian Corporate income tax regime, companies are taxed at the greater of (a) 30% flat rate on taxable net income or (b) an alternative calculation of taxable income, whereby total taxable income is reduced by 95.33% and taxed at a 30% rate.
3. **Commercial Operation Permit (Aviso de Operación Comercial):** In order to engage in business in the country, an operating permit is required (formerly known as commercial license), which is now obtained through a government website specifically designed for this purpose (Panama Emprende). It is important to bear in mind that foreigners are not allowed to engage in retail business in Panamá or neither to render certain professional services that are reserved for Panamanians by law (law, medicine, architecture, engineering and others).
4. **Municipality (Local Government):** it is mandatory to register with the municipality or local government for the purpose of paying local taxes.
5. **Registration in the Social Security Office:** It is mandatory to register all the employees in the Social Security, which is the public institution in charge of the administration of insurance programs for pension, health, unemployment, and occupational accidents and injuries.

All the steps described above should take less than 2 weeks.

Investing in Real Estate: Aside from the Constitutional restriction to buy property within 10 Km of the country's borders, foreigners are allowed to purchase property anywhere within the Panamanian territory.

For the past five years, construction has been a driving sector in Panama's great boom, and an important part of that growth was due to American baby boomers buying properties in Panama. Unfortunately, since the US financial crisis has affected both the capacity and the confidence of the American investor, the luxury-oriented construction sector has taken a hit. Nevertheless, the real estate sector remains attractive for foreign investors and foreigners looking for second residences. There are hundreds of apartment buildings currently under construction and there are other major projects in the final stages of development.

Investment is also attractive in the countryside. It is no secret to the world that Panama has hundreds (if not thousands) of tourist destinations. World class pristine beaches are found all along Panama's coastlines both on the Pacific and Caribbean coasts. Panama also has approximately 1,500 islands and 4 archipelagos (San Blas alone has 365 islands, one for each day they say), as well as mountainous, volcanic regions such as Boquete, recognized internationally as one of the best retirement spots in the world.

When starting negotiations to purchase property, it is advisable to do a complete due diligence of the property, including title search, property tax status, environmental implications, zoning requirements and the existence of liens or other encumbrances, before moving forward with the transaction.

Retirement

Although the US financial crisis has slowdown the flow of Americans and Europeans coming down to Panama for retirement, Panama is still one of the top destinations. Panama's retiree program is extremely attractive, including benefits such as one time exemption for import duties for household goods up to \$10,000; tax exemption to import a car every 2 years for personal use; multiple tax exemptions and discounts on dozens of services in Panama from public transport to movies, mortgage rates, doctor's visits, electricity, restaurants and airfares; among others.

Additional benefits of investing in Panama

1. Top telecommunication systems
2. The legal tender is the US dollar
3. Fiscal structure based on local source income principle
4. Easy import and export of goods and merchandise through the Colon Free Zone.

5. Banking System with reliable supervisory authority
6. New immigration laws that facilitates the movement of visitors
7. Panama's major investment incentives, applicable depending on the specific sector, might include:
 - 5-20 year exemption on property tax on new infrastructure.
 - 15 year exemption on income tax.
 - 20 year exemption on imports duties.
 - Yearly depreciation of up 10%
8. To encourage long-term foreign investment, Panama requires no special authorizations, permits or prior registration for foreign investors.

In addition to what has been said above, why Panama is still a good place to invest nowadays?

1. **Stability.** Panama has a sustainable, prospering economy and a deep commitment to democratic values.
2. **Accessibility.** Panama is home to the Hub of the Americas, the largest in the region, with daily flights to-and-from major U.S. cities and direct flights to a couple European cities. Panama is also home to COPA Airlines, the fastest growing and most profitable airline in Central America and the Caribbean, and is now a home port for international cruise lines.
3. **Convenience.** Panama City is the most cosmopolitan city in Central America and offers an active nightlife along with wonderful restaurants, luxurious hotels and a safe environment.
4. **Business Capital of the Americas.** The Panamanian financial center is the largest in Latin American and it is the most globalize economy in the region, with a legal framework that facilitates business and professionals that understand the international markets.

In conclusion, as Panama welcomes the challenges of the 21st century-global financial crisis included- take a moment to think about the best country in Latin America to do business, and there is no doubt that the Isthmus of Panama will make click on your mind.