

UPDATE 4-Panama wins investment-grade after taming budget

Fitch gives Panama debt investment-grade rating

By Sean Mattson and Daniel Bases - Tue Mar 23, 2010 10:02pm EDT

PANAMA CITY/NEW YORK, March 23 (Reuters) - Panama won a coveted investment-grade rating on its debt on Tuesday, rewarding the Central American country for years of rapid economic growth, trim budgets and tax system overhauls.

Fitch Ratings raised its credit rating for Panama by one notch to BBB-minus, putting it in a club of creditworthy heavyweights that includes much larger economies like Brazil, Mexico and Chile.

The upgrade, a victory for conservative President Ricardo Martinelli and which comes as some Southern European countries are risk downgrades, will likely attract more investment to Panama.

"Today's welcome news underscores our commitment to nurturing an economic climate which strengthens confidence in foreign investors and contributes to a higher quality of life for our citizens," said Martinelli in a statement released by the government.

Martinelli, who prioritized gaining investment grade after taking office last year, has pushed two tax reforms through Congress.

"It's good news for all Panamanians. It definitely improves the economic outlook for the following years," said Panamanian economist Horacio Estribi.

Panama, which uses the U.S. dollar as its currency and straddles a narrow strip between the Atlantic and Pacific Oceans, has emerged as a big winner from the growth in global trade.

About 4 percent of international commerce flows through the Panama Canal, and the country also ships goods by rail from ports on one coast to another.

Shipping prowess helped Panama average 8 percent annual growth between 2000-09 - the fastest pace in Latin America.

Panama's economy even grew during the global recession and a \$5.25 billion project under way to expand the canal bodes well for future growth.

After running a deficit equivalent to 4.9 percent of GDP in 2004, Panama ran surpluses between 2006-08. Last year, when growth slowed, it went into the red for 1 percent of GDP.

"The upgrades reflect a sustained improvement in public finances, underpinned by recent tax reforms, and the economy's resilience to the global financial crisis and associated recession," Fitch said in a statement. For details, see [ID:nN23111444]

TAX REFORMS

Countries like Greece and Portugal currently risk rating downgrades because of onerous budget deficits while Mexico was downgraded by two rating agencies last year as political paralysis kept the economy weak while oil output slumped.

But Panama has kept borrowing in check in recent years. The country's debt as a percentage of gross domestic product has fallen to 45 percent in 2009 from 71 percent in 2004.

Under Martinelli's predecessor Martin Torrijos, Congress began major public finance overhauls in 2005, including deficit limits.

"This investment grade is an acknowledgment of the policy framework laid out by the Torrijos administration that has been continued by the Martinelli administration," said Boris Segura, Senior Latin America Economist at RBS.

"Not a lot of countries have it, it is kind of a medal of honor," he added.

Also helping win the rating was Panama's flush banking sector -- famous for asking few questions of international depositors -- that has financed a construction boom. However, U.S. law enforcement has alleged that drug money from Mexican and Colombian drug cartels has paid for part of that building binge.

The outlook for the credit rating is positive, Fitch said.

"Recent tax and fiscal reforms signaled a continuing commitment to fiscal discipline and enhancing the flexibility and quality of public finances," said Theresa Paiz Fredel, a Fitch sovereign credit analyst.

Although the canal expansion and other public works projects have helped government coffers, Paiz Fredel said Panama's public debt ratios remain high relative to its BBB-rated peers.

But she added "official dollarization, a favorable amortization profile and the government's considerable financial and land assets offset this weakness."

Both Standard & Poor's and Moody's Investors Service rate Panama one notch lower at BB-plus and Ba1, respectively. They have also said they are considering rating upgrades.