Panama energy storage investment

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Panama''s investment climate is generally good but faces increasing levels of uncertainty due to a March 2024 loss of investment grade, fiscal challenges, instances of social unrest in 2022-2023, and a new government that took office on July 1, 2024.

As the home of the Panama Canal, a dollarized economy, the world''s second largest free trade zone, and sophisticated maritime, logistics, and finance operations, Panama attracts billions of dollars in foreign direct investment (FDI) annually. However, deficiencies such as corruption, insufficient transparency and judicial capacity, government arrears and non-payment, and an undereducated workforce have either precluded additional FDI or complicated existing investments. To its credit, Panama has undertaken efforts to counter money laundering and terrorist financing in the past five years, leading the Financial Action Task Force to remove Panama from its grey list in October 2023 after initially listing the country in June 2019.

Two of the three major rating agencies rate Panama''s sovereign debt at investment grade as of March 31, 2024, with Moody''s at Baa3 (the lowest level within investment grade) and Standard & Poor''s at BBB (two notches above investment grade). Fitch downgraded Panama''s credit rating to BB+ (speculative, also known as non-investment grade or "junk") on March 28, noting the downgrade reflected fiscal and governance challenges aggravated by the closure of the Minera Panama copper mine. A tense social backdrop and party fragmentation would likely constrain the new administration''s ability to promptly address fiscal challenges, according to Fitch. Government debt stood at $50.5 billion as of April 2024 representing nearly 61 percent of 2023 GDP.

Panama is at the nexus of both global and regional trade, thanks to the Panama Canal and its strategic geographic location in the center of the hemisphere. The Panamanian government is eager to attract FDI, with several policies in place to encourage multinational companies to establish regional offices in Panama. As such, Panama continues to attract one of the highest rates of FDI in the region, including $3.8 billion in FDI stock from U.S. sources in 2022, according to the U.S. Bureau of Economic Analysis. Building on Panama''s existing strengths as a logistics hub, the Panamanian government and civil society are focused on supporting U.S. supply chain diversification priorities in pharmaceuticals and semiconductors, with several feasibility studies underway.

Panama''s investment climate, however, suffers from unemployment and high levels of labor informality and income inequality. Unemployment was 7.4 percent as of August 2023. Unemployment among Panamanian youth - defined as 15-29 years old - represented 54 percent of total unemployment as of August 2023, per INEC''s findings. As of August 2023, nearly 48 percent of the workforce was employed in the informal sector. Labor informality rates in many indigenous communities were greater than 70 percent. Panama is also one of the most unequal countries in the world in terms of income distribution, with the 14th highest Gini Coefficient and a national poverty rate of 13 percent according to the World Bank.

Panama welcomes foreign direct investment (FDI) and relies heavily on the private sector and FDI to fuel its economy. With few exceptions (described below), Panamanian law makes no distinction between domestic and foreign companies for investment purposes. Panama benefits from stable and consistent economic policies, a dollarized economy, and a government that consistently supports trade, open markets and FDI.

Panama has had one of the highest levels of FDI in Central America. Through the Multinational Headquarters Law (SEM), the Multinational Manufacturing Services Law (EMMA), and the Private Public Partnership Law (PPP), Panama offers tax breaks and other incentives to attract investment. Executive Decree No. 722 of October 2020 created a new immigration category: Permanent Residence as a Qualified Investor, after an initial investment of $300,000. The Ministry of Commerce and Industry (MICI) is responsible for overseeing foreign investment, prepares an annual foreign investment promotion strategy, and provides services required by investors to expedite investments and project development (for more details, please visit: https://digesi.mici.gob.pa/).

The Cortizo administration created a Minister Counselor for Investment cabinet position that reports directly to the President, with the aim of attracting new investors and dislodging barriers that confront current ones. MICI, in cooperation with the Minister Counselor for Investment, facilitates the initial investment process and provides integration assistance once a company is established in Panama.

Law 207 created the Export and Investment Promotion Authority “PROPANAMA” () on April 5, 2021. It provides investors with information about doing business in Panama, expedites specific projects, leads investment-seeking missions abroad, and supports foreign investment missions to Panama. In some cases, other government offices work with investors to ensure both parties are properly complying with regulations and requirements for land use, employment, special investment incentives, business licensing, and other conditions. Entities that carry out a minimum investment of $2 million in Panama enjoy the benefits of legal stability and investment protection, with national, municipal, and customs tax incentives and legal stability in the labor regime for a period of 10 years.

The Organization of American States (OAS) selected Panama to host the Americas Competitiveness Exchange (ACE) from January 29 to February 2, 2024. ACE is the premier economic development, innovation, and entrepreneurial network of the Americas, coordinated with the U.S. Mission to the OAS and the U.S. Department of Commerce.

The Panamanian government imposes limitations on foreign ownership in the retail, maritime, and media sectors. In most cases, owners of firms in these sectors must be Panamanian. However, foreign investors can continue to use franchise arrangements to own retail outlets within the confines of Panamanian law. Under the TPA, direct U.S. ownership of consumer retail is allowed in limited circumstances. There are also limits on the number of foreign workers in some foreign investment structures.

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