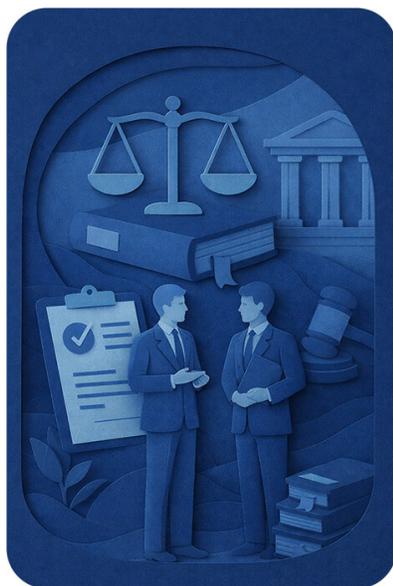




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Panama: Opportunities and Legal Framework for Foreign Investors



Quijano & Asociados is pleased to present the guide Panama: Opportunities and Legal Framework for Foreign Investors. This publication provides an overview of the country and the most relevant legal aspects for international investors.

The Republic of Panama stands out as an attractive destination for foreign investment due to its strategic location as a key

logistical and commercial center in the Americas. Panama offers privileged access to the North American, South American and European markets, and has an expanding domestic market of over 4 million inhabitants. The Panamanian labor force is skilled and the country maintains a policy of openness to both investment and international trade.

As a result, Panama has emerged as one of the region's most vibrant economies. In 2023, the country attracted approximately \$2 billion in foreign direct investment and welcomed more than 1.3 million tourists, underscoring its attractiveness for both business and tourism. With an average annual economic growth of around 5% over the last twenty-five years, Panama has established itself as an economic engine in Latin America.

We hope that this guide will be a valuable tool for investors, helping them to understand the most important legal aspects of doing business in Panama. However, it is important to note that this guide provides only a basic introduction and does not cover all the complexities of our legal system or possible legislative changes subsequent to its publication. Therefore, we strongly recommend hiring a qualified legal advisor for specific guidance.

At Quijano & Asociados, we would be pleased to assist readers with any questions they may have regarding this guide, as well as other issues related to their investments in Panama. Below, you will find our contact information and other relevant information about our firm.

ABOUT QUIJANO & ASSOCIATES

Founded in 1959, Quijano & Asociados is one of the most respected law firms in Panama, with international presence in several countries, including Switzerland, British Virgin Islands, Belize, Seychelles and The Bahamas.

It also has representative offices in Liechtenstein and Hong Kong. The firm offers services in a wide range of legal areas, including company formation, trusts, ship registration, fiduciary services, corporate, financial and immigration law, among others.

Quijano & Asociados has been recognized both locally and internationally for its professionalism, integrity and commitment to its clients. The firm is a member of prestigious global law firm networks such as the International Society of Primerus Law Firms and Geneva Group International. We are also proud to have been ranked as a Leading Firm for 2024 by Chambers & Partners, The Legal 500, and as a Recommended Firm in the IFLR 1000 of 2023.

This broad international reach allows the firm to provide high quality services and to keep its clients updated on global legal

developments.

For more information about Quijano & Associates and how we can assist you in the Republic of Panama, please visit our website www.quijano.com or contact us directly by email at one of these addresses: quijano@quijano.com (Quijano & Associates - Attorneys at Law) (Chambers & Partners) (Quijano & Associates - Attorneys at Law) (IFLR1000) (Primerus) .



PANORAMA GENERAL SOBRE LA REPÚBLICA DE PANAMÁ

1. INTRODUCTION

1.1. OVERVIEW OF THE REPUBLIC OF PANAMA

Location and extension

The Republic of Panama is located in the southeastern corner of Central America, connecting North and South America. It is bordered to the north by the Caribbean Sea, to the east by Colombia, to the south by the Pacific Ocean and to the west by Costa Rica. It is

located 7° north of the Equator, in the tropical strip. Its territorial extension is approximately 75,517 square kilometers, a little larger than Costa Rica and similar in size to the state of South Carolina in the United States.

Topography and climate

Panamá, aunque es un país Panama, although a relatively small country, has a very diverse geography. The country has two extensive coasts, off

which lie some 1,520 islands, islets and keys. The Pacific coast is 1,700 kilometers longer than the Caribbean coast, which is 1,288 kilometers long. Panama's topography is somewhat irregular. Lowlands and hills predominate, representing 70% of the territory. It is crossed by several mountain ranges, including the Cordillera Central and the Serranía de Tabasará. The country is home to the highest point, the Baru Volcano, which reaches 3,475 meters



above sea level. Panama also has numerous watersheds, rivers and an abundance of flora and fauna.

Panama's climate is tropical, with temperatures that vary little throughout the year. The average temperature in the lowlands is between 27 -29 °C, while in the mountainous regions it can drop to 15 °C. The rainy season extends from May to December, and the dry season from January to April.

History

Panama has a rich and complex history dating back to the arrival of the first indigenous peoples thousands of years ago. In 1501, Rodrigo de Bastidas, a Spanish explorer, was the first European to reach the Panamanian coast. In 1519, Panama became an important transit and trade point since Spanish colonial times, with the founding of Panama City by Pedro Arias Davila.

Panama separated from Spain in 1821 and joined Gran Colombia, remaining part of Colombia until 1903, when it achieved its independence with the support of the United States. Subsequently, a treaty was signed that allowed the construction of the Panama Canal, inaugurated in 1914, which remains a vital infrastructure for global trade. In the 20th century, Panama experienced several periods of political instability, including the military dictatorship of Manuel Noriega. In 1989, a U.S. intervention ended the Noriega regime, ushering in a period of democratization and economic growth.

Population

Panama's population is approximately 4.3 million, 49% male and 51% female, with a high concentration in urban areas. The capital, Panama City, is the largest urban center where 53% of the country's total population is concentrated. Other important centers include Chiriquí (11%); Colón (7%) and Coclé (6%), respectively.

Panama is a melting pot of cultures, with a majority mestizo population, as well as significant minorities of Afro-descendants, indigenous people, Orientals and Europeans. The country is known for its ethnic and cultural diversity, reflected in its festivities, cuisine and traditions.

Panama's population is relatively young; in 2023, 25% of the population was under 15 years old and 49% was under 30 years old. The percentage of people over 65 years of age 10% of the population. According to the latest available data, the average age of the population in 2023 is 32 years. The latest available employment data show that in October 2022 the economically active population totaled 2,148,792 with 1,846,363 being the employed population, not yet reaching pre-pandemic 2019 levels. In 2023 the unemployment rate stands at 8%.

Government and Administrative Organization

The Government of Panama is a constitutional, democratic and representative republic, divided

into three branches: executive, legislative and judicial.

The President of the Republic and the members of the legislative body are elected by popular vote for a term of five years. Re-election is not allowed. The President exercises the executive power. The National Assembly, with 71 members, exercises legislative power. The judicial branch is headed by the Supreme Court of Justice, divided into 4 chambers, composed of 9 magistrates, appointed by the President and ratified by the National Assembly for 10-year non-renewable terms.

Panama is divided into 10 provinces, 79 districts, 679 corregimientos and 5 indigenous comarcas, each with its own local government. The capital, Panama City, is also the seat of the national government and the country's main financial and commercial center.

The economic administration is implemented under two ministries: the Ministry of Economy and Finance (MEF), with two vice ministries, and the Ministry of Commerce and Industries (MICI). The former is responsible tax collection, planning, budgeting, meeting the State's payments and financial and borrowing needs, conducting macroeconomic analysis and economic policy.

The Ministry of Commerce and Industries (MICI) is the agency in charge of developing and executing the Government's policy in matters of industry, commerce and use of natural resources, as well as foreign trade. The MICI is divided into two vice-ministries: the Internal



which is in charge of the planning, organization, coordination, direction and control of the activities of commerce, mines and industry; and the Foreign Commerce, which directs the policy of foreign trade, negotiations and services to the exporter.

The Ministry of Economy and Finance, through the General Directorate of Customs, the Ministry of Commerce and Industry, the Ministry of Health, the Ministry of Agricultural Development, the National Environmental Authority and the Panamanian Food Agency are involved in the processing of exports and imports, depending on the type of product.



1.2. BUSINESS ENVIRONMENT AND BUSINESS AND INVESTMENT OPPORTUNITIES

Panama is a small market, however, it has one of the highest GDP per capita in Latin America (\$ 17,702 in 2023), and is therefore an upper-middle income country.

There are four main drivers of development and opportunity: Commercial Distribution (20% of GDP), Logistics Sector (14% of GDP), Construction (13%) and International Banking Center (6% of GDP).

Since 2019, the mining sector has joined these traditional engines of growth. The opening of the Cobre Panama mine, has increased the weight of this sector in the economy

significantly and has changed the export structure (main export of the country, 75-80%), as well as the configuration of the country's main trading partners. Thus, mining activity, according to INEC, represented 7.5% of GDP by the third quarter of 2022. However, for the time being this activity has been paralyzed since November 2023 due to social unrest and the Supreme Court's ruling on the unconstitutionality of the commercial agreement for the exploitation of the mine.

The capital stands as the main business center, concentrating 80% of GDP and centralizing both industrial activity and the provision of services. In addition, the canal axis, which connects Panama and Colon, stands out as another key economic area, housing the country's main ports and most of the logistics sector.

Panama is a country very receptive to international trade and foreign investment. There are no limitations to foreign investment and/or repatriation of profits. There are also no registration requirements for capital and there is no tax on the transfer of funds to the country.

Although there are not many trade restrictions due to the limited and underdeveloped local industry, some protectionist measures are implemented, such as tariffs and import quotas, especially on sensitive products, which are generally agricultural products. Tariffs are generally applied on the CIF value of the merchandise, although in some cases they are determined according to quantity, weight,

size or volume. Tariff rates range from 0% for unprotected products to 33%. In addition, imports are subject to the tax on the transfer of goods and services (ITBMS), which is levied on the transfer of movable goods and the provision of services. However, certain products are exempt from this tax, such as food, medicines, real estate, securities transactions, health services, public transportation, and exports from the Colon Free Zone.

Most companies in Panama are small, with few exceeding 500 employees, and most of them belong to the service sector. Therefore, a foreign company seeking to collaborate with importers in Panama should consider that Panamanian entrepreneurs usually prefer exclusivity contracts.

Importers in Panama have a low level of specialization due to the limited size of the market, which prevents them from focusing on a single product, and the short marketing chain. In addition, there is a high concentration of distribution in several sectors, such as fashion, food, construction machinery and pharmaceuticals, which restricts the entry of new products. Importers also act as distributors and wholesalers, and may even sell retail. Therefore, it is essential to select a reliable importer, as it will assume most of the functions in the commercial chain.

There are the usual channels and figures: importers, distributors, wholesalers and retailers. In general terms, price



is more important than brand, which explains the large number of imports from Asia. Currently, there is a growing trend towards quality and branded products, motivated mainly by foreigners and the emerging middle class.

In general, commercial distribution in Panama is characterized by:

- High business concentration, with a predominance of family-type groups or holdings.
- High geographic concentration (>80%) in the metropolitan region (Colon and Panama).
- Geographic specialization of both industry and services in three zones: Panama (industry and services); Colon, in the Caribbean (Free Zone, losing importance); David, province Chiriqui (agribusiness).
- Due to the small number of companies, imports of full containers are rare and the usual unit of purchase is the pallet. Importers usually consolidate cargoes from different suppliers.
- Marketing through exclusivity. The Panamanian entrepreneur normally negotiates the exclusivity of the product for 5 years.
- Greater importance of price as opposed to brand or product quality, with Asian imports dominating.
- Very short marketing chain and low specialization of importers (they import a wide range of products).
- The different Free Trade Zones, especially the Colon Free Zone, function as a large storage and inventory management center for the

Panamanian market, especially for non-perishable products from Asia.

Despite its small size, Panama is a net importer of all types of products, so there have been opportunities in sectors associated with projects, due to the boom in public and private construction, and consumer products. Thus, transport and lifting machinery, mechanical equipment and components, electrical machinery and equipment, pharmaceuticals and chemicals, perfumery and cosmetics have traditionally been the main import sectors, while agri-food products see their possibilities more limited by the high tariff rates, especially for fresh products, not so much processed ones.

The public sector is the main purchaser, especially in health (medical equipment and medicines), public works, and consulting services. Public sector purchases are published in a virtual portal called *P a n a m a C o m p r a* (www.panamacompra.gob.pa) where they are detailed by sector.

Due to the growth in electricity demand and the effects of climate change on hydroelectric generation (approximately 55% of the energy matrix), an increase and change in installed generation capacity is needed. The National Energy Secretariat seeks to diversify the energy matrix by incorporating natural gas and become the hub for natural gas trade in Central America. There may also be opportunities in the area of photovoltaic generation. It is estimated that the Government,

through the National Energy Secretariat, can invest about \$2,000M in this area in the next few years in generation and about \$500M in transmission.

The foreign company interested in entering Panama must take into account that in Panama personal relationships and cordiality are highly valued. Business tends to take a long time, since it is necessary to build personal relationships and trust before closing a contract. Relationships in the business context are hierarchical. Although decisions are made at the highest level, relationships must be cultivated at all levels, including lower levels, because the quality of relationships, regardless of the level, substantially conditions the success of a business.

2. ECONOMIC ENVIRONMENT

Panama is an upper-middle income economy with an estimated Gross Domestic Product (GDP) of US\$83.4 billion through the third quarter of 2023. Over the past 50 years, Panama's real GDP growth has averaged 5.0%, making it one of the fastest growing economies in Central and Latin America.

This sustained growth has been driven by various sectors, including logistics, trade, construction, financial services and tourism. In addition, the country is known for its free trade zone system and business-friendly environment, attracting investors from around the world.

Panama's GDP growth has experienced significant fluctuations due to various global and local economic



factors. During the 2008-2009 financial crisis, the Panamanian financial sector demonstrated resilience, maintaining positive GDP growth. In 2011, GDP growth reached approximately 11%, with an average trend of around 4.6% in the following years. However, the COVID-19 pandemic resulted in a GDP contraction of 17.7% between 2019 and 2020. Despite these challenges, GDP rebounded with growth of 15.8% in 2021 and 10.8% in 2022, and is estimated to have grown by 8.8% through the third quarter of 2023.

activity of the Panama Canal and copper exports.

Panama's country risk is generally influenced by its political stability and regulatory framework. Panama has maintained a stable democracy since 1989, with regular elections and peaceful transitions of power. The country has also implemented significant reforms to improve transparency and combat corruption, which has helped attract and retain foreign investment.

bananas, pineapples, plantains, melons, watermelons and coffee are cultivated agricultural products that, in addition to meeting local demand, generate surpluses for export. There is another group of products that generate by-products, such as tomatoes, sugar cane and African palm, to mention the most important ones, where there is a national industry that processes some of their by-products, which participate in foreign trade, both in exports and imports. Livestock production is dominated by cattle and, to a lesser extent, pigs, but production is clearly insufficient to meet the domestic market.

2.1. MAIN ECONOMIC SECTORS

Panama is an eminently tertiary economy. The services sector is the largest sector of the economy, representing approximately 75% of GDP. Within this sector, financial services and logistics are the most prominent.

The primary sector contributes only 2.6% of GDP in 2022, of which more than 85% corresponds to agricultural activities. Nevertheless, the primary sector employed 273,139 people in 2022, or 15.7% of the employed population.

Agriculture, livestock, and hunting

The main national production is of cereals and grains such as rice, corn or beans and does not cover domestic demand, so the difference must be imported. These items have the characteristic that a significant part of the production is made using rudimentary production techniques carried out manually. Fruits such as

Fishing

It represented 0.4% of GDP in 2022. The main activities of this subsector are exports of fresh and refrigerated fish, shrimp and other seafood products.

The secondary sector accounted for 23.9% of GDP in 2022. The weight of the industrial sector maintains a decreasing trend, despite the notable progression of mining, the result of the drastic drop in the share of the construction sector, which in 2018 represented 18.3% of GDP and in 2023 only 13%.

Manufacturing Industry

In recent years, the sector has been steadily losing relative importance (from 6.3% of GDP in 2011 to 5.7% in 2019 and 2020, to 4.6% in 2021) mainly due to the loss of competitiveness of the sector against imports (meat, fish, dairy, sugar, etc.), and the reduction in the production of construction materials (cement, lime, gypsum, concrete),

Investment Rating

Major rating agencies, such as Fitch Ratings, Moody's and Standard & Poor's, provide detailed assessments of Panama's sovereign risk and ability to meet its financial commitments at .

As of the date of this report, the ratings given to the country by the main rating agencies are as follows:

- Moody's: Baa2, negative
- Standard & Poor's: BBB, stable outlook.
- Fitch: BBB-, stable outlook

The FITCH rating stands out as it already places it in the last step of the investment grade, however, in January 2022 it has changed its outlook from negative (in force since 2020) to stable due to the continuous improvement in the fiscal position and a better than expected economic recovery after the initial shock of the pandemic, due to the pull of external demand, including the



representing a very small percentage within the secondary sector. Nevertheless, this industry still employed 129,453 workers in 2022 (7.4% of the employed population).

Electricity, gas and water

In 2022, this category accounted for 1.9% of GDP. These are physical capital-intensive sectors and therefore employ barely 0.5% of the employed population (around 16,000 people).

Construction

It is the most important activity of the secondary sector in Panama as it was one of the main economic engines of Panama in the second decade of this century, coming to represent 18.3% of GDP in 2018. In 2021 its weight was reduced to 13% of GDP. This branch of activity, which in 2022 employed 143,321 people, represents 10% of the employed population.

Mining

This sector has been systematically increasing its weight in GDP from 1.9% in 2018 to 2.4% in 2019, 3.6% in 2020 and 5.1% in 2021 and up to 7.5% in 2023 as a result of the entry into operation, and exports, of the Panama Copper Mine in Donoso, which allowed this sector alone to explain 27.6% of the economy's growth in 2021. This capital-intensive sector employed only about 5,149 workers.

The main sector of the Panamanian economy is, by far, the tertiary sector. Panama takes advantage of its

comparative advantages to structurally differentiate itself from the rest of the Ibero-American economies, based on a service economy. The tertiary sector has three pillars: a) commercial activity, thanks in part to the Colon Free Zone (which contributes around 5% of GDP), b) the maritime and logistics sector, boosted by the Canal, and c) the financial sector with its International Banking Center.

Wholesale and retail trade

It accounted for 20% of GDP in 2022, being not only the branch of activity with the greatest weight but also the one that employs the largest population (313,368 people or 18% of the employed population in 2022). The relevance of this sector, as mentioned, is leveraged by the existence of the Colon Free Zone (CFZ), created in 1948, which operates as an autonomous institution since 1953, and stands as the largest free zone in the Americas (and the second largest in the world after Hong Kong). The main goods imported and re-exported in the FTZ are cell phones, footwear, medicines, tires, perfumes, cigarettes, textiles, jewelry, electronics and liquors, which are imported from all over the world (although the main origins are China, USA, and Hong Kong), to be then re-exported to the rest of Latin America. In 2021, the value of its re-exports reached US\$9,603M and its imports totaled US\$9,037M.

Transportation, Warehousing and Communications

It represented 14.6% of GDP in 2022, employing 124,386

workers (7.1% of the employed population). Obviously, this sector is fully influenced by the existence of the Panama Canal, but also by the activity generated by the Colon Free Zone and free zones for other uses (such as oil and gas), the expansion of ports, and the increase in air traffic through the Tocumen International Airport. The Panama Canal, inaugurated in 1914, is the country's most important infrastructure and converging point of many of the main international trade routes, and since 2016, when its expansion was completed, it has allowed the passage of the largest capacity Neopanamax vessels, significantly increasing the tonnage crossing the canal each year. Thus, in fiscal year 2022, some 13,342 vessels with 516 million tons transited the Canal. Canal revenues in fiscal year 2022 totaled \$3.98 billion. The Canal's direct and indirect contribution to the Panamanian economy is estimated at 7% of GDP and contributed \$2,080M to the State in 2022.

The strategic location of the country, together with the Panama Canal, makes the trade and logistics sector one of the pillars of the economy, facilitating regional and international trade.

Financial and Insurance Activities

It contributed 7.4% of GDP in 2022, and employed 37,461 workers. The International Banking Center has been one of the most dynamic on the continent, although reputational problems and its inclusion on the FATF and EU lists of tax havens has led to the departure of several international banks (in



2018 it employed more than 44,600 people, a drop of 20%). Panama is an international financial center, with a robust banking system and favorable regulation that attracts foreign investment.

Panama's banking sector is considered stable and well capitalized according to the International Monetary Fund's (IMF) Financial Sector Assessment Program (FSAP) report. The banking system, which dominates Panama's financial system, is resilient to financial stress scenarios and is supported by strong capitalization and liquidity. Financial policies have been strengthened in recent years to safeguard the autonomy of the Superintendency of Banks and ensure financial stability.

Panama's banking system benefits from dollarization as legal tender, which eliminates exchange rate risk and contributes to macroeconomic stability. However, there is also the Balboa (B/.) as Panamanian currency. The Balboa has been tied to the value of the US dollar since 1904. In addition, the absence of a central bank has led to strict regulation and supervision of the banking sector by the Superintendency of Banks of Panama, ensuring prudent management of financial risks. Panamanian banks also comply with international Basel III standards in terms of capital and liquidity, which further strengthens their stability and resilience.

According to the IMF report, Panamanian banks have a high proportion of high quality capital and maintain adequate liquidity

levels, allowing them to absorb economic and financial shocks. The banking system has also shown significant capacity to handle the increase in non-performing loans during the COVID-19 pandemic, thanks to prudential measures and government support.

The Real Estate branch

Closely linked to construction, it contributed 6.3% of GDP in 2019, and employs 13,975 workers.

Apart from these branches of activity, the sharp rise in the weight of public administration in the economy is notably striking, as it has been systematically increasing from 7.7% of GDP in 2016 to 10% in 2023 (after soaring to 12.3% of GDP in 2020, being the most protected sector in the pandemic). The civil service employs 236,322 workers.

Tourism

According to the Panama Tourism Authority (ATP), tourism accounts for 5% of Panama's GDP directly, up to 15% indirectly and is one of the main foreign exchange generating sectors in Panama (more than 4,700M USD in 2022). In 2022, 1,945,646 visitors (tourists plus day visitors) entered Panama.

The vast majority (78% of the total) of tourists enter Panama by air through Tocumen Airport (one of the most important air hubs in the continent). The average stay of a visitor in Panama is approximately 8 days and their average expenditure during that period totals US\$2,426. According to Tocumen, the origin of

tourism in Panama came mainly from the United States (17%), followed by Colombia (12.9%) and Venezuela (4.0%) and Spain, which contributed 3.1% of the total number of visitors.



2.2. LOGISTICS AND ACCESS TO INTERNATIONAL MARKETS

Panama stands out in Latin America and the Caribbean with the best maritime connectivity according to UNCTAD's Liner Shipping Connectivity Index. This index measures the level of integration of a country in global maritime transport networks, reflecting the accessibility and capacity to participate efficiently in international trade.

In the fourth quarter of 2023, Panama achieved its highest LSCI score since 2006, underscoring its position as a key node in global maritime trade routes. The presence of multiple undersea fiber optic cables connecting Panama to North America, South America and Europe also enhances its digital connectivity, making the country an attractive hub for telecommunications and digital



services companies.

The Panama Maritime Authority reports a significant increase in container handling, with a 19.5% increase in transshipment and a 17.3% increase in total container traffic in the first two months of 2024 compared to the same period in 2023.

Panama's major container ports, including Manzanillo International Terminal (MIT), Colon Container Terminal (CCT), Cristobal and Balboa, are considered among the most modern and efficient in Latin America. These ports are equipped with state-of-the-art technology and have a combined capacity of more than 7 million TEUs annually. The expansion of the Panama Canal has enabled the ports to handle larger and larger vessels, increasing efficiency and reducing transportation costs.

Panama is committed to significant infrastructure development, including the construction of the fourth bridge over the Panama Canal, the expansion of Metro lines 1 and 2, and the maintenance and expansion of highways. These projects are vital to improving connectivity and logistics, further strengthening Panama's position as a global logistics hub.

In addition, Tocumen International Airport, one of the most important in the region, has a new terminal (T2) that has significantly increased its capacity to handle more flights and passengers. This has consolidated Panama's position as an air transport hub in Latin America. Other important

projects include the construction of new port infrastructure and the modernization of the interoceanic railroad, which connects the ports of Balboa and Colon, facilitating the fast and efficient transit of goods across the isthmus.

Panama presented a degree of trade openness of 76.2% in 2022, which places it as one of the countries with the highest degree of openness in the entire Ibero-American region, and only behind small economies such as Honduras or Nicaragua.

It also has the specificity that this degree of openness is due to both trade in goods (degree of openness around 55% of GDP) and trade in services (degree of openness around 23% of GDP) driven, as we have seen, by transportation, tourism and the financial sector. This shows Panama's integration in the international routes of goods, services, people and capital and reflects its international positioning slogan: "hub of hubs".

As usual in this region, Panama's main trading partners are the USA and China. The United States ranks first as a supplier (22.1% of Panama's total imports), followed by China (9.1%), Mexico (3.9%), Costa Rica (3.1%), Colombia (2.8%), Brazil (1.9%) and Spain (1.7%).

China, apart from being the country's second largest supplier, since 2019 has positioned itself as the first client (destination of 32.7% of exports in 2022) due to copper concentrate exports from the Cobre Panama Mine. The start-up of exports from this

mine in June 2019 has impacted enormously the configuration of Panama's main client countries, boosting countries such as Japan (second client by receiving 15% of Panamanian exports in 2022), South Korea (3rd client with 7.4% of Panamanian exports), India (4th client with a 6.5% share), Germany (5th client with a 6.4% share), and Spain (4.3%), relegating traditional destinations such as the Netherlands or the USA, which traditionally received the primary products exported by Panama.



2.3. FREE ZONES AND SPECIAL ECONOMIC AREAS

Special Economic Areas

Panama has several special economic areas designed to encourage investment, boost the economy and generate employment. These areas offer tax, labor and immigration incentives to attract companies from different sectors. The following are the main special economic areas in Panama.

Colon Free Zone

The Colon Free Zone (CFZ) is the largest free trade zone in the Western Hemisphere, established in 1948. Located at the Atlantic entrance to the Panama Canal, the CFZ is a hub for the redistribution of goods for Latin America and the Caribbean. Companies from all over the world use the FTZ to



import, store, assemble, re-export and distribute products.

Companies established in the FTZ enjoy several incentives, including:

- Tax exemptions: No income tax, VAT, import or export duties are paid.
- Logistics facilities: Direct access to ports, airports and the interoceanic railroad, facilitating the efficient movement of goods.
- Services and support: Modern infrastructure, advanced telecommunications services and administrative support.

In addition, the CFZ has implemented a state-of-the-art management and logistics system that includes traceability and real-time monitoring technologies, improving efficiency and safety in the management of goods. The zone also offers training and development programs for employees, fostering a skilled and competitive workforce.

Panama Pacific

The Panama Pacifico Special Economic Area, located on the former Howard military airfield, is intended to be a global business and logistics hub.

Established in 2004, this area offers a favorable environment for high-tech, logistics, manufacturing and service companies.

Companies in Panama Pacifico can benefit from:

- Tax exemptions: Including income tax, import tax and other local taxes.
- Labor flexibility: Favorable

labor policies and access to a skilled workforce.

- Immigration incentives: Facilitations for obtaining visas and work permits for foreign employees.

Panama Pacifico also has a world-class infrastructure that includes data centers, research and development facilities, and coworking spaces. The area is designed to foster collaboration and innovation, providing an ideal environment for startups and technology companies. In addition, it offers business support services such as legal, tax and human resources advice to facilitate the establishment and operation of businesses.

City of Knowledge

The City of Knowledge is a center for innovation, research and development, located in the former Clayton military base. This area houses academic institutions, international organizations, research centers and technology companies, promoting collaboration and sustainable development.

Benefits and Facilities

- Tax incentives: Exemptions from income, import and other taxes.
- Infrastructure: Modern facilities and access to advanced telecommunications services.
- Support for innovation: Programs and funds for research and technological development.

The City of Knowledge also offers incubation and acceleration programs for startups, providing mentoring, access to capital and networking for entrepreneurs.

In addition, it hosts international events, conferences and workshops that promote knowledge exchange and collaboration between researchers, companies and non-governmental organizations.

Aguadulce Special Economic Area

Located in the province of Coclé, the Aguadulce Special Economic Area is designed to encourage investment in agribusiness and other economic activities. Companies setting up in this area can benefit from tax exemptions and access to modern infrastructure.

The Aguadulce area also has financing programs and specific subsidies for agricultural and agroindustrial development projects. These programs are designed to improve the productivity and sustainability of the sector, facilitating access to international markets for Panamanian agricultural products.

Baru Special Economic Area

Located in the province of Chiriquí, the Baru Special Economic Area promotes the development of logistics, agro-industrial and tourism activities. Incentives include tax and tariff exemptions, as well as facilities for the importation of equipment and materials.

Baru's strategic location near the border with Costa Rica facilitates cross-border trade and regional integration. In addition, infrastructure projects are being developed to improve connectivity and access to



international markets, making Baru a key point for trade and logistics in the region.

Free Trade Zones

Panama's free trade zones, in addition to the Colon Free Zone, offer a variety of benefits for businesses. These zones are designed to facilitate international trade and attract investment in manufacturing, assembly, distribution and services.

Benefits for Companies in Free Trade Zones

- **Tax exemptions:** Income tax, import and export duties, and other local taxes.
- **Infrastructure and services:** Access to modern facilities, telecommunications services and administrative support.
- **Trade facilities:** Simplified customs procedures and access to international markets.

Free trade zones also provide high-quality logistics and transportation services, facilitating the efficient distribution of products in Latin America and the Caribbean.

These zones are equipped with advanced management and monitoring technologies, enabling companies to optimize their operations and reduce costs.

The Panamanian government continues to invest in infrastructure projects, such as the construction of the fourth bridge over the Panama Canal, the expansion of Metro lines 1 and 2, the construction of Metro line 3, and the improvement of national highways. These

investments improve connectivity and facilitate trade, further strengthening Panama's position as a global logistics hub.

3. BUSINESS REGULATIONS IN PANAMA

3.1. Corporations and Legal Entities

Panama offers a variety of legal entities to carry out economic activities, the most common being the following:

- **C o r p o r a t i o n s (Corporations):** Regulated by Law No. 32 of 1927, based on the general corporation laws of the State of Delaware. Corporations may be formed by two or more persons of any nationality and not necessarily resident in Panama. They require a minimum of three directors and three officers (dignitaries), who may be natural or juridical persons and need not be shareholders of the corporation or residents of Panama.
- **Limited Liability Companies (LLC):** The liability of the partners is limited to the capital contributed.
- **Limited Partnerships (Simple and Joint Stock):** Combines general partners with unlimited liability and limited partners with liability limited to the capital contributed.
- **Private Interest Foundations:** Used mainly for estate planning and transfer of assets.

Quijano & Asociados advisors can offer you access to investment programs that include all the legal advice necessary for their development.



The Fiscal Code of the Republic of Panama establishes that corporations, limited liability companies, private interest foundations and any other national or foreign juridical person, with the exception of civil societies and non-profit associations, shall pay at the moment of their registration a first annual fee of two hundred and fifty balboas (B/.250.00). In subsequent years the payment for this concept will be of three hundred balboas (B/.300.00) to maintain the full validity of the juridical person. For all the legal effects it will be understood by full validity of the juridical person its valid inscription in the Public Registry of Panama. Payments must be made as follows: until June 30 of each year for corporations whose date of registration corresponds to the first six (6) months of the year, and until December 31 of each year for corporations whose date of registration corresponds to the last six (6) months of the year. The payments of the unique rate that are made outside the mentioned terms will cause a surcharge of fifty balboas (B/.50.00) per year or fraction of year.

Failure to pay the fee in the period in which it is caused will result in the non-registration of minutes, documents or agreements in the Public Registry. It should be noted that, in addition to this surcharge of fifty balboas, companies that fail to pay the fee every three (3) consecutive or alternate periods will have to pay a fine of three hundred balboas (B/.300.00).

Every merchant or service provider is required to have audited financial statements. Failure to comply will result in a

fine of \$ 5,000.

In addition, there are other legal forms such as partnerships, cooperatives and associations, which may be suitable for different types of businesses and objectives. Cooperatives are especially useful in agricultural and community service sectors, providing tax benefits and government support for their establishment and operation.

Panamanian corporations enjoy several tax benefits, including:

- Non-taxation of foreign source income: Income generated outside of Panama is not subject to local taxes.
- Flexibility in administration: There are no nationality or residency requirements for directors and officers, and meetings can be held in any country.

All legal entities must register with Panama's Public Registry. Panama also complies with international legislation, such as FATCA, and maintains a transparency regime to combat money laundering, requiring disclosure of beneficial owners and custody of bearer shares.

Since 2015 in Panama, Law 47 of August 6, 2013 has been in force, which establishes the custody regime for bearer shares of corporations incorporated in Panama. This regime grants two options: To issue the shares in nominative form or to convert the bearer shares into nominative shares or to deposit the share certificates with an authorized custodian.

The registration process is efficient and can be completed in a few days. The digitization of

the Public Registry has facilitated access to information and transparency, allowing investors to make inquiries and complete procedures online. In addition, Panamanian law requires all companies to maintain adequate accounting records in Spanish and file annual reports, ensuring a high level of compliance and transparency. These records must be available to the Resident Agent.

Notice of Operation (formerly known as Commercial License)

The Notice of Operation is the main requirement to start most commercial or industrial activities in Panama, replacing the old business licenses. This online system, regulated by Law No. 5 of 2007, simplifies the process of opening businesses and eliminates the need for multiple permits and authorizations.

Advantages of the Notice of Operation

- On-line process: Performed through the web portal of the Ministry of Commerce and Industries (MICI), eliminating the need for long lines and office visits.
- Interconnection with the Municipality of Panama: Allows to automatically obtain the municipal taxpayer number together with the operation notice.
- Fixed rate: Applies a fixed rate without distinction of commercial activity.

In addition, the Panama Emprende system provides access to a centralized database that facilitates compliance verification and obtaining additional certificates required



for specific operations. This system is an example of how digitalization can improve administrative efficiency and reduce barriers to business establishment.

To obtain the Notice of Operation, the following information is required:

- Company name and registration.
- General information on managers and directors.
- Office address.
- Contact information (telephone numbers, e-mail addresses, etc.).
- Type of business and amount of initial investment.

The Notice of Operation must always be visible in the company's office or workplace.

The application process also includes the evaluation of specific requirements depending on the industry, such as health certificates for food and beverage businesses, or environmental permits for industrial activities. It is recommended that entrepreneurs consult with legal and business advisors to ensure full compliance with the requirements applicable to their sector.

The following activities are exempted from the Notice of Operation requirement:

- Agricultural, livestock, beekeeping, poultry, aquaculture, agroforestry or similar activities.
- The manufacture and sale of handicrafts and other manual or cottage industries, provided that the salaried labor of up to five workers is used.
- The exercise of non-profit

- activities.
- The exercise of activities that are not acts of commerce or industrial activities, carried out by natural persons or civil societies.
- The exercise of liberal professions, individually or through civil societies, since they are not considered commercial acts.

In Panama, industrial activity includes:

- Extractive or manufacturing activities, as well as wholesale and state sales of products extracted or manufactured by them.
- Construction companies that use the salaried labor of third parties.
- Manual, cottage or handicraft industries using more than five workers.
- Wholesale trade in turn is exercised by engaging in:
- The rendering of services, except for those classified as retail trade by current legislation.
- Sales to the State and to companies.
- The exercise of all kinds of commercial activities that do not constitute retail trade.

And retail trade is exercised by engaging in:

- The sale of goods to the consumer.
- The representation or agency of production or commercial companies.
- Any other activity that the law qualifies as such.

The Fiscal Code of the Republic of Panama establishes that the annual tax to be caused by notices of operations will be two percent (2%) of the net capital of

the company with a minimum of one hundred balboas (B/.100.00) and a maximum of sixty thousand balboas (B/.60,000.00). Natural and juridical persons with invested capital of less than ten thousand balboas (B/.10,000.00) are exempted.

Tax Regime

The legal tax relationship in the Republic of Panama is closely related to the General Principles of Tax Law, being the principle of territoriality the one that governs our tax system, which establishes that only income generated within the Panamanian territory is subject to taxation. Foreign source income is not subject to local taxes. The general corporate income tax rate is 25%.

This principle makes Panama an attractive place for multinational companies and individuals with global income, as it allows for efficient tax planning and reduction of the tax burden on income generated outside the country. Companies operating in international trade, financial services and other globalized sectors can benefit significantly from this tax regime.

Collection is the responsibility of the General Revenue Directorate of the Ministry of Economy and Finance, which has coercive jurisdiction. The Administrative Tax Court, created in 2010, has jurisdiction and national competence to hear appeals against decisions of the General Revenue Directorate.

We must emphasize that another strength of Panama is that as of April 2023 it had signed 118 tax information exchange agreements with



foreign tax administrations both to provide information upon request and to be able to request information in tax investigations including the United States, Canada and OECD members, to improve transparency and international cooperation in tax matters.

It has also signed 17 agreements to avoid Double Taxation, which are a tool that also brings foreign investment, especially to multinational groups seeking tax operational efficiency. Among the countries with double taxation treaties with Panama are Spain, France, Italy, Mexico, the United Kingdom, and others.

Double tax treaties also facilitate the exchange of tax information between signatory countries, improving transparency and helping to combat tax evasion. These treaties provide a legal framework that protects investors against double taxation and ensures fair and equitable tax treatment.



This reinforces Panama's commitment to transparency and compliance with international tax standards.

Tax on the Transfer of Movable Property and the Rendering of Services (ITBMS)

The Tax Code of the Republic of Panama establishes that the

rendering of all types of services by merchants, producers, industrialists, professionals, lessors of goods and service providers in general will cause a Tax on the Transfer of Movable Goods and the Rendering of Services (ITBMS) that are carried out within the Republic of Panama at a rate of seven percent (7%) on the value of the purchase made or service rendered.

In other items, the tax varies as follows:

- Import, wholesale and retail sale of alcoholic beverages, 10%.
- The import, wholesale and retail sale of tobacco products, such as cigarettes, cigars, among others: 15%.
- Lodging or lodging services in all types of public establishments: 10%.

This tax is generally charged to the buyer or customer receiving the service, and the company rendering the service acts as withholding agent. The company acting as withholding agent shall settle within fifteen (15) calendar days following the expiration of the previous month. The sworn statements-settlements of this tax may only be extended or rectified once per fiscal period within a peremptory term of twelve (12) months, counted as from the expiration of the term established by law for the filing of the original statement. Said corrective returns shall have a cost of one hundred balboas (B/.100.00) for individuals and five hundred balboas (B/.500.00) for corporations if they are filed after three (3) months from the legal date of filing the original return.

Income Tax

Income tax in Panama is levied exclusively on net income derived from operations carried out within the Republic of Panama. Income obtained from operations consummated outside the Republic of Panama does not constitute Panamanian source income and is not, therefore, subject to this tax.

In Panama taxes are set according to the principle of "territoriality". According to Article 694 of the Tax Code, the income of any natural or juridical person, national or foreign, domiciled or not in the Republic of Panama, and derived within the national territory, is subject to this tax. Income obtained from operations consumed abroad is not income obtained from a Panamanian source, and therefore is not subject to income tax in the Republic of Panama.

In the case of legal entities, income tax is levied at a fixed rate of twenty-seven point five percent (27.5%) for operations corresponding to the 2010 period and twenty-five percent (25%) for operations in 2011 and subsequent years, but always verifying whichever is higher, namely:

- a. taxable income calculated using the traditional method (gross taxable income less deductible expenses and costs, exempt, non-taxable and foreign source income) at the fixed rates described in the preceding paragraph, or
- b. the net taxable income resulting from applying four point sixty seven percent (4.67%) to the total taxable income.



This item number two (2) applies only to legal entities whose taxable income exceeds one million five hundred thousand balboas (B/.1,500,000.00) per year.

Companies that are registered under the Micro, Small and Medium Enterprise regime have a minimum income tax rate of 7.5% up to a maximum of 22.5%.

Characteristics of Micro, Small and Medium Enterprises:

- Companies registered in Ampyme's Business Registry.
- That it is not affiliated, subsidiary or controlled by other legal entities.
- Income not exceeding B/. 500,000

As of January 1, 2011, legal entities shall pay a monthly advance to Income Tax equivalent to one percent (1%) of the total taxable income of each month. This monthly advance to the Income Tax shall be paid by means of a sworn declaration within the first fifteen (15) calendar days following the previous month, according to the procedures established for such purposes by the General Directorate of Revenues.

Now, even if a Panamanian corporation has an office in Panama, employees in Panama, and a license to conduct business in Panama, such corporation does not pay income tax if the transaction giving rise to such income is consummated, takes effect or is perfected outside of Panama. In other words, a Panamanian corporation with directors, officers, offices and employees

in Panama does not pay income tax if it is engaged exclusively in conducting its foreign transactions from its offices in Panama. If the Panamanian corporation does business in Panama and outside of Panama, it is only subject to income tax with respect to that portion of its income earned from business conducted in Panama.

The Tax Code also establishes that every taxpayer is obliged to file, personally or through an attorney-in-fact or representative, a sworn statement of the income obtained during the previous taxable year, as well as of the dividends or participations distributed among its shareholders or partners, and of the interest paid to its creditors.

The deadlines for the annual filing of this affidavit shall be:

- For natural persons, until March 15;
- For legal entities, until March 31;

Together with this declaration, the taxpayer shall submit an estimated declaration of the income to be obtained in the year following the year covered by the affidavit. Such income according to the estimated return shall not be less than the income indicated in the affidavit.

However, when the estimated return reflects a lower balance than the sworn return, the sworn return shall be subject to investigations of all the reasons and verifications on which it is based, in order to determine its falsity, as established in the Tax Code, or other reasons that entail surcharges and interest, if applicable.

Taxpayers may request to the General Directorate of Revenue, before the expiration of the term for filing the annual income tax return, an extension of said term for filing the annual income tax return, an extension of said term, up to a maximum period of two (2) months, prior payment of the tax that the taxpayer deems caused. If after the filing of the tax return there are taxes to be paid in excess of what has already been paid by the taxpayer, the respective surcharges and interests on the unpaid balance of the tax shall be caused.

The General Directorate of Revenue will only accept income tax returns prepared based on the accounting record using the accrual system on the basis of the International Financial Reporting Standards or IFRS. In exceptional cases, the cash system may be used with the prior authorization of the General Revenue Directorate, according to the type of economic activity of the taxpayer. Civil societies engaged in the exercise of liberal professions and legal entities whose annual taxable income does not exceed two hundred and fifty thousand balboas (B/.250,000.00) shall not require prior authorization.

The income tax returns may be extended or rectified only once per fiscal period and within a peremptory term of thirty-six (36) months, counted from the expiration of the term established in the law for the presentation of the original tax return.

The filing of the corrective declaration shall cause a cost of one hundred balboas



(B/.100.00) for natural persons and five hundred balboas (B/.500.00) for legal entities.

The Tax Code establishes that income tax returns shall be prepared and countersigned by a Certified Public Accountant in any of the following cases:

a. In the case of taxpayers engaged in activities of any kind whose capital is greater than One Hundred Thousand Balboas (B/.100,000.00).

b. In the case of taxpayers with an annual sales volume greater than Fifty Thousand Balboas (B/.50,000.00).



Non-taxable income in Panama

Invoice, from an office established in Panama, the sale of goods or products for an amount greater than that for which such goods or products have been invoiced against the office established in Panama, provided that such goods or products move only abroad.

To direct, from an office established in Panama, transactions that are perfected, consummated or take effect abroad.

Distribute dividends or participation quotas of legal entities that do not require Notice of Operation or do not generate taxable income in Panama, when such dividends or participations come from income not produced within the territory of the Republic of Panama.

Dividend Tax

Dividends distributed from income derived exclusively from Panamanian income are taxed at a rate of ten percent (10%) in the case of registered shares and twenty percent (20%) in the case of bearer shares. The company distributing such dividends is obliged to withhold at the source the amount of the tax on such dividends. However, all those dividends that come from income that is not of Panamanian source are taxed at a rate of (5%) Likewise, a Panamanian corporation whose only income is constituted by dividends from other corporations or interest on bank deposits, Panamanian or foreign, will not be subject to income tax or dividend tax and does not have to make any declaration if such legal entity does not require notice of operation to carry out its activities.

When the distribution is less than forty percent (40%) of the net profits or in case there is no distribution, the provisions of the supplementary tax shall apply, regardless of the type of shares issued by the company.

A corporation that does not operate in Panama may distribute all or part of its assets to its shareholders without incurring any tax on the

corporation or its shareholders. The case is the same even if the assets so distributed, at the time of their distribution, have a much higher value when the corporation acquired them.

The transfer mortis causa of shares of a Panamanian corporation does not cause mortuary or inheritance tax.

Individuals who receive salaries or other compensation from Panamanian corporations are only subject to income tax in Panama if they reside in the Republic of Panama and the work is performed in the Republic of Panama.

Only individuals or corporations that receive taxable income, i.e., income from Panamanian sources, must file annual income tax returns. Therefore, Panamanian corporations that do not earn income from Panamanian sources are not required to pay income tax in Panama or file a return in relation to their operations or income.

There are other taxes such as the selective consumption tax, stamp tax and real estate taxes that apply when the company does not pay ITBMS or when the company is the owner of any property in Panama (i.e. it does not apply if the commercial premises where it applies is rented).

If you have gross income of\$ 1,000,000 or more or assets of\$ 3,000,000 or more you must file a monthly report of all your purchases.

Non-compliance generates a fine of\$ 1,000. for each month of non-compliance.

Labor Obligations

Labor-management relations in Panama are mainly regulated by the Labor Code (Cabinet Decree No. 252 of December 30, 1971 and its amendments). The essential elements for the determination of the existence of an employment relationship, in accordance with the Code, are legal subordination and economic dependence. The existence of the relationship determines the obligation to pay the salary.

Workers' rights are considered a minimum, are not waivable and cannot be diminished. Any act, contract or declaration that implies the waiver or impairment of workers' rights is considered null and void. In addition, the splitting of the employer or company into different legal entities does not affect the rights of workers.

Employment Contracts

Employment contracts must be executed in writing, in 3 copies (one for the employee, one for the employer and one for the authorities of the Ministry of Labor and Labor Development). In the absence of such contract, the allegations of the worker in relation to the facts and circumstances that must be stated in the contract will be deemed to be true, unless proven otherwise by the employer.

Contracts may be entered into for an indefinite period of time, for a definite period of time and for a specific work. The maximum term for a fixed-term contract is one (1) year. Such contract will be considered for an indefinite term if the employee: a) continues working after the expiration of the term

of the contract, b) continues working after the work for which he/she was hired is concluded, c) when successive contracts for a definite term or for a specific work are entered into.

Hiring under a probationary period of up to three months is allowed, provided that the rendering of the service requires a certain special skill or ability and it is expressly stated in the contract. Under Panamanian law, the employer may not terminate the employment relationship for an indefinite period of time, without a justified cause provided by law, and according to the legal formalities. Exceptions to this rule are workers with less than two years of continuous service, domestic workers, workers on ships engaged in international service, apprentices, among others.

To formalize the dismissal, the employer must provide the employee with a letter notifying him/her of the decision, indicating the date and the specific cause for the termination of the employment relationship.

Foreign Workers

Under Panamanian law, it is permitted to hire foreign workers in a proportion not exceeding 10% of the total number of ordinary workers of the company, except in the case of technical personnel whose percentage must not exceed 15%.

In order to work, foreigners require a Work Permit issued by the Ministry of Labor and Labor Development. The Work Permit is valid for one (1) year, extendable for the same period

up to a maximum of five (5) years.

Excepted from the above percentages are trust workers of companies that in Panama are exclusively engaged in maintaining offices for the purpose of conducting transactions that are perfected, consummated or take effect abroad, with prior authorization from the labor authorities.

The employer authorized by the Ministry of Labor and Labor Development to contract services of foreign workers is obliged to substitute the specialized foreign worker for a Panamanian one in a maximum term of five years, counted from the date of issuance of the respective Work Permit.

Salary

The salary may be fixed per unit of time (month, fortnight, week, day or hour) and per task or piece. It includes, in addition to what is paid in cash or in kind, gratuities, bonuses, premiums, commissions, profit sharing and any income or benefit that the worker receives for work or as a consequence of it. In any case, it may not be less than the legal minimum (established by the Government, according to the activity and geographical area where the service is rendered) or conventional minimum.

Income Tax - Individual (Employee)

It is paid through payroll or directly when filing the annual tax return.

Rates are variable:

- 0% on income up to B/.11,000.



- 15% for the excess of income from B/. 11,000 up to B/. 50,000
- 25% of the excess income from B/. 50 000 and up.

Thirteenth Month

Under Panamanian law, employers must pay their employees a special bonus called "Thirteenth Month", consisting of one day's salary for every eleven days of work, payable in equal installments on April 15, August 15 and December 15 of each year.

This bonus is non-seizable for the employee and is subject to income tax and social security contribution deductions. For the employer it constitutes a deductible amount for tax purposes, as an expense in the production of income.

Vacations

Workers are entitled to an annual paid rest at the rate of 30 days for every 11 continuous months of work (one day for every eleven days in the service of the employer). The remuneration will be one month's salary when it has been agreed per month and four weeks one third when it has been agreed per week.

Vacation time is unwaivable and may not be exchanged for any compensation. The vacation period can only be divided into two equal fractions at the most. Vacations may be accumulated for up to two periods, in which case the employee must have a minimum of fifteen days off in the first period and the rest must be accumulated for the following period.

Seniority premium and severance fund

Upon termination of any employment contract for an indefinite term, regardless of the cause of termination, the employee is entitled to receive from his employer a "seniority premium", at the rate of one week's salary for each year worked, from the beginning of the employment relationship. In the event that one (1) year of service is not completed in its entirety, the employee will be entitled to the corresponding proportional part.

In cases of dismissal, the employer must give thirty days' notice or pay the amount corresponding to the notice period. The notice period shall begin to run as from the pay period following the notice.

In order to determine the amount of the seniority premium, the salary for each year of service rendered by the employee is the average of the total remuneration received by the employee during the last five (5) years worked.

The Social Security Fund (state entity), banks, insurance companies (operating in the life insurance business) and savings and loan associations are authorized to receive and administer the funds or contributions corresponding to the seniority premium.

Since 1995, employers with five (5) or more employees on their payrolls are required to create, for indefinite-term employment contracts, a severance fund to pay the employee, upon termination of the employment relationship, the seniority premium and severance pay for

unjustified dismissal or justified resignation.

For the establishment of this fund, the employer must make quarterly contributions for the employee's seniority premium and 5% of the monthly part of the severance payment to which the employee may be entitled, in the event that the employment relationship is terminated due to unjustified dismissal or justified resignation. These quarterly contributions will be deposited in trusts in banks (with general license), insurance companies (with license to operate in Panama), companies with fiduciary license, cooperatives and investment companies or mutual funds administrators.

For the employer, these contributions constitute a deductible expense for income tax purposes.

Social Security

It is the obligation of any natural or juridical person of public or private law, operating in the national territory, to register with the social security fund as an employer within the first six working days of starting operations. The employer's contributions to the social security system after the approval of Law No. 51 of December 27, 2005, which reforms the organic law of the Social Security Fund, is equivalent to twelve points twenty-five (12.25%) of the salaries paid to their employees.

Special employer contribution for health benefits:

As of the entry into force of this Law and for the purpose of contributing to the support of



the Sickness and Maternity Risk, employers shall pay an additional fee to that provided for in Article 130 of this Law, equivalent to twenty-five percent (0.25%) of the salaries paid to their employees.

During this period, the State will carry out the pertinent studies to determine the financial situation of the Sickness and Maternity Risk and its needs, in order to make the adjustments required to achieve its efficiency and sustainability; including, if necessary and among others, the pertinent legal modifications, in order to introduce the financial adjustments, total or partial, including the employer's contribution, that will be required to remedy the problems identified.

Occupational Risks

The rate or quota of professional risks are additional items of contributions on the salaries of its employees and these are determined according to the degree of risks of the economic activity of the employer at present this rate ranges from one point fifty-six percent (0.56%) to five points sixty-seven percent (5.67%) of the monthly salaries of the employer.

Educational Insurance

In addition, there is also the so-called "Educational Insurance", which is a tax established for the purpose of subsidizing educational activities in the country. It is made up of contributions from workers (salaried or self-employed) and employers. The employer must contribute

one point five percent (1.5%) and the employee one point twenty five percent (1.25%) of the monthly salary. Contributions to the educational insurance fund are deductible from the taxpayer's income tax.

Intellectual Property Laws

Panama has strengthened its intellectual property laws to align them with international standards and protect the rights of creators and innovators. The General Directorate of the Industrial Property Registry (DIGERPI) is the entity in charge of the protection and registration of patents, trademarks, copyrights and other intellectual property rights in the country.

The country is a member of the World Intellectual Property Organization (WIPO) and has signed several international treaties, such as the Paris Convention for the Protection of Industrial Property and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). These agreements strengthen the protection of intellectual property rights in Panama and ensure that right holders receive fair and equitable treatment.

Panama has also implemented education and training programs for judges, prosecutors and customs officials on the importance of intellectual property and how to combat piracy and counterfeiting. These efforts have resulted in a significant improvement in the enforcement of intellectual property laws in the country.

Public Procurement Laws

Panama's public procurement laws are designed to promote transparency, fairness and competition in the bidding process. Foreign companies have access to participate in public projects, as long as they comply with the established requirements and adhere to local regulations.

Panama's public procurement system uses an electronic platform called PanamaCompra, which allows companies to register, search for bidding opportunities and submit bids online. This platform increases transparency and reduces entry barriers for companies, facilitating the participation of foreign companies in the Panamanian public procurement market.

The public bidding process includes several stages, such as publication of the call for bids, submission of bids, evaluation of proposals, and award of the contract. Participating companies must comply with all technical and legal requirements specified in the terms of reference in order to be considered. In addition, appeal and review mechanisms are in place to ensure fairness and transparency in the process.

Foreign companies should also consider local regulations regarding the hiring of personnel and the use of local inputs, which may be requirements in some public contracts. Working with local advisors can help companies navigate these regulations and maximize their chances of success in the Panamanian public procurement market.



3.2 Incentive Laws

Panama has implemented a number of laws and incentive regimes aimed at attracting and retaining foreign investment.

These incentives cover a variety of areas, from investment stability and multinational headquarters to the film industry and call centers. The following are the main incentive regimes available to investors in Panama.

Incentives for Multinational Headquarters (SEM)

The Multinational Company Headquarters (SEM) regime is designed to attract multinational companies to establish their regional offices in Panama. Companies that qualify for this regime enjoy several tax benefits, including:

- **Income Tax Exemption for Foreign Activities:** Income derived from services rendered to entities outside of Panama are exempt from income tax.
- **Income Tax Exemption for Expatriate Employees:** Foreign employees of SEM companies residing in Panama are exempt from income tax on their salaries, provided the salary is derived from foreign sources.

To qualify, companies must establish an office in Panama to provide support, administration and operations services to their subsidiaries in the region.

The SEM regime also includes tax exemptions on dividends, interest and royalties, as well as benefits on the importation of equipment and materials necessary for the operations of

multinational companies. This regime has been a key factor in attracting more than 150 multinational companies to Panama, including leading companies in technology, pharmaceuticals, logistics and financial services.

EMMA (Regimes for Multinational Manufacturing and Assembly Companies)

The EMMA regime is intended to attract multinational companies engaged in manufacturing and assembly activities. Qualified companies enjoy tax, labor and immigration benefits, including income tax and import tax exemptions on goods and raw materials necessary for their operations.

In addition to the tax benefits, companies under the EMMA regime can obtain residence and work permits for their foreign employees in an expeditious manner, facilitating the transfer of key personnel and the efficient operation of their manufacturing plants in Panama.

Call Center Incentives

Companies that establish call centers in Panama may benefit from tax and tariff exemptions under Law No. 52 of 2008. These incentives are designed to promote job creation and the development of the service sector.

In addition, call centers can benefit from preferential rates for telecommunications and electricity services, as well as training and skills development programs for local personnel, financed in part by the Panamanian government.

Renewable Energy Incentives

Law No. 45 of 2004 and its amendments establish a special incentive regime to promote investment in renewable energies, including solar, wind, hydro and biomass. Qualifying projects may benefit from tax and tariff exemptions, as well as other financial benefits.

In addition to tax benefits, renewable energy projects can access preferential financing through development banks and international cooperation programs. The Panamanian government also offers technical assistance and regulatory support to facilitate the approval and implementation of clean energy projects.



Reforestation Incentives

Law No. 24 of 1992 and its amendments provide tax incentives for reforestation projects. Investors may benefit from exemptions from income tax, import tax on equipment and materials, and other tax advantages.

Reforestation projects can also access international certifications, such as FSC (Forest Stewardship Council) certification, which can increase the value of forest products and facilitate their access to

international markets. In addition, reforestation contributes to environmental sustainability and conservation objectives, aligning with global climate change policies.

Oil/Fuel Free Zone Incentives

Through the enactment of Cabinet Decree No. 36 of 2003 and its amendments, Panama adopted the Oil/Fuel Free Zones, in which individuals or corporations, national or foreign, may carry out the following operations under a special tax-free regime, for all kinds of operations or activities related or accessory to the establishment and exploitation of Oil Free Zones for the introduction, storage, pumping, transfer, distribution, transformation, commercialization and extraction of oil and its derivatives.

Incentives to the recycling industry

Law 223 of June 8, 2021 establishes tax exemptions and incentives in environmental matters as of the fiscal year 2022. The objective is to promote sustainable business practices, the reconversion of companies and the development of the recycling industry in the Republic of Panama.

Regulatory entity: Ministry of Environment

Some of the incentives for legal entities specialized in the operation of industrial recycling plants are the exemption for 5 years from the payment of the following taxes:

- Income tax

- Tax on dividends or participation quota distributed among domestic and international partners or shareholders.
- Import tax on equipment and machinery required for manufacturing.

Incentives for Free Trade Zones

Companies established in free trade zones in Panama, such as the Colon Free Zone and Panama Pacifico, enjoy a number of fiscal and operational incentives, including exemptions from income tax, import tax, and other taxes and duties.

In addition to tax benefits, free trade zones offer world-class infrastructure, including warehousing and logistics facilities, efficient customs services, and access to international markets. These zones are designed to facilitate trade and investment, providing a favorable and competitive environment for businesses.

Other Incentives

- Incentives to Cooperatives
- Education Incentives Colleges and Universities
- Certificate of Power of Attorney (CPC)
- Certificate for the Promotion of Agroexports (CEFA)
- Certificate of Productive Development (CFP)
- Certificate of Industrial Development (CFI)

3.3. Procedures and Requirements for Investors

To facilitate foreign investment in Panama, the country offers a

variety of permits and visas designed specifically to attract foreign capital and talent. Below are the key procedures and requirements that investors must follow to establish themselves in Panama.

Investment Residence Permits

Panama offers several types of residence permits based on different types of investments:

- **Real Estate Investment:** Requires a minimum investment of US\$500,000 in real estate in Panama.
- **Real Estate Investment through a Promise to Purchase Contract:** A deposit in trust of at least US\$500,000 administered by a local bank or trustee with a promise to purchase a property of equal value is required.
- **Investment through a brokerage house:** Minimum investment of US\$500,000 in one or several securities of issuers whose activities impact the national territory, managed through the Panama Stock Exchange.
- **Time Deposit Investment:** Requires a minimum five-year time deposit of US\$750,000 in the banking sector.
- **Reforestation Investor Visa:** This visa is intended for those who invest a minimum of US\$80,000 in at least twenty hectares of a government certified reforestation project. An additional US\$2,000 must be invested for each additional dependent.
- **Free Trade Zone Investor Visa:** For foreigners who invest US\$250,000 with foreign funds in a company



that is an authorized promoter or operator of a Free Trade Zone. This temporary residence permit is valid for two years, after which a permanent residence can be obtained.

- **Call Center Investor Visa:** For foreigners who invest US\$250,000 with foreign funds in an authorized call center in Panama.
- **Short Term Remote Worker Visa:** For operative workers of foreign transnational companies or self-employed workers in telework modality, who perform functions that have an impact outside Panama and receive income from foreign sources, with an annual income of not less than US\$36,000.
- **Friendly Countries Visa:** This visa is available for citizens of more than 50 countries considered "friendly" by the Panamanian government. It allows obtaining permanent residency through investment, the purchase of real estate or the creation of a company in Panama. Applicants must present a bank reference letter and a criminal record certificate, in addition to documents proving the investment or business.
- **Qualified Investor Visa:** Introduced in 2020, this visa is aimed at investors making substantial investments in the country. It requires a minimum investment of US\$500,000 in real estate, US\$750,000 in Panamanian government securities, or US\$500,000 in a local banking entity. This visa allows obtaining permanent residency in a

period of 30 days.

To apply for any type of visa or residence permit, investors must follow the following steps and submit the relevant documentation:

- Gather all necessary documentation, which generally includes:
- Proof of investment: Documentation supporting the required investment, such as purchase contracts, certificates of deposit, or financial statements.
- Bank references: Letters of reference from international banks that support the investor's financial capacity.
- Criminal Record Certificates: Issued by the country of origin and duly apostilled.
- Passport: Copy of valid passport of the applicant and his/her dependents.
- Photographs: Recent passport size photographs.
- Additional documents: Depending on the type of visa, other specific documents may be required, such as real estate ownership certificates, trust contracts, etc.

In addition to the above documents, applicants may need to submit proof of financial solvency, such as bank statements for the last six months, and a letter of commitment not to engage in gainful activities within the country for certain types of visas. It is important to verify in advance all specific requirements for each type of visa.

All foreign documents must be translated into Spanish by an official translator and legalized

by Apostille or by the corresponding Panamanian consulate.

It is recommended that applicants review all translations and legalizations for accuracy and completeness prior to submission to avoid delays in the application process. Working with a local attorney can help ensure that all documents meet legal requirements.

The application and the corresponding documentation must be submitted to the National Immigration Service of Panama. It is advisable to do it through a Panamanian lawyer specialized in immigration and investment law.

The submission process may also include an interview with an immigration officer, during which documents will be reviewed and the applicant's suitability for the requested visa or residence permit will be assessed.

The National Immigration Service will review the application and documentation submitted. This process may include interviews and additional verifications to ensure the authenticity of the information provided.

During the evaluation, applicants may be contacted to provide additional information or clarify doubts about the documentation submitted. It is important to respond in a timely and accurate manner to facilitate the approval process. Once approved, the investor will receive the visa or residence permit, which will allow him/her to reside and operate legally in



Panama according to the terms of the granted permit.

After receiving the visa or residence permit, investors must comply with registration and notification requirements, such as registering with the National Immigration Service and updating any changes in personal or investment information. It is also important to renew the visa or permit according to the established deadlines to avoid legal problems.

Investors must comply with all local tax and regulatory obligations, including:

- **Company Registration:** All companies must register with the Public Registry of Panama.
- **Licenses and permits:** Obtain necessary permits, such as Notice of Operation.
- **Tax returns:** File appropriate tax returns and comply with local tax regulations.

In addition to these requirements, companies must maintain adequate accounting records and file annual reports with the Public Registry and the General Revenue Directorate (DGI). It is also recommended that companies conduct periodic internal audits to ensure compliance with all tax and corporate regulations.

4. FINANCIAL SYSTEM

4.1. Dollarized Banking System

Since 1904, Panama has used the U.S. dollar as legal tender, allowing the country to enjoy low inflationary pressures and zero exchange rate risk for U.S.

investors. In addition, the absence of a central bank allows transactions in other currencies, creating a niche market for those interested in alternatives to traditional currencies.

Dollarization has provided a stable macroeconomic environment, which has been crucial for attracting foreign investment and maintaining investor confidence. The stability of the exchange rate has also facilitated international trade and reduced transaction costs for companies operating in Panama.



4.2. Banking System and Credit Facility

The Panama International Banking Center is one of the most prestigious in the region, comprised of more than 60 financial institutions that provide all types of services in direct competition with leading global banking centers. This center is known for its solidity and strict regulation, adhering to the principles of the Basel II Convention and some Basel III regulations.

The banking center operates without a lender of last resort and also lacks a deposit insurance institution. This has contributed to create a solid banking culture of assumed risks in terms of credit and liquidity management of the system. Panama maintains an open banking system model connected to the rest of the world, with simultaneous operation of international and local banks. It should be noted that there has not been any episode of systemic banking crisis, whose origin is attributable to intrinsic imbalances in the banking system.

The Banking Center operates in two clear dimensions: (i) according to market segment, (ii) according to the nature of its activities.

Depending on the segment, the following markets can be identified: (i) interbank, for liquidity management; (ii) private banking and individual deposits; (iii) foreign trade and international corporate; (iv) domestic banking; (v) public sector.

The main banking activities are in: (i) acceptance of bank deposits; (ii) retail banking; (iii) commercial and corporate lending; (iv) foreign bookkeeping; (v) lending between foreign bank branches, treasury and liquidity management; (vi) regional administration; (vii) corporate finance.

There are three types of licenses granted to banks, depending on the authorization conduct banking operations. The general license, for banks authorized to

conduct banking business inside and outside Panama; the international license, for those banks that are exclusively authorized to conduct banking business outside Panama; and the representative license, for banks that maintain only representative offices.

In addition to banks, the Panamanian financial sector includes insurance companies, stock brokers and other financial services that complement the ecosystem. Panama has also developed a growing investment fund industry, with several registered funds seeking to attract foreign capital to invest in local projects. Stability and favorable regulation have made Panama an attractive destination for private banking and wealth management.

In general, Panamanian banks grant loans at a higher interest rate than foreign banks due to the higher cost of acquiring funds, as they offer higher interest on savings accounts. Checking accounts do not generate interest.

The Superintendency of Banks of Panama (SBP) is the government agency responsible for the control and supervision of the banking system. It has full autonomy over its budget and personnel, as well as effective authority to inspect, regulate and even intervene in banks.

the solvency of the system, the capital adequacy ratio over risk-weighted assets was 15.5% in September 2023, including capital requirements for credit, market and operational risks in accordance with Basel III, which is significantly higher than

the regulatory minimum of 8% required by the Banking Law. On the other hand, in September 2023 the liquidity of Panamanian banks was 55.5%, higher than the legal regulatory ratio of 30%.

Despite having an International Banking Center, Panama is characterized by low financial inclusiveness. According to World Bank Global Financial Inclusion Data, in 2021, only 45% of the Panamanian population has an account in a financial institution and only 7.2% has a credit card.

Panama has signed international agreements such as FATCA and the OECD's CRS MCAA to improve tax transparency and combat money laundering. These agreements strengthen international confidence in the Panamanian financial system and ensure alignment with global standards.

The country has also implemented laws for the prevention of money laundering and the financing of terrorism, aligned with the recommendations of the Financial Action Task Force (FATF). These measures have improved the perception of Panama as a safe and transparent financial center. In addition, the Superintendency of Banks of Panama conducts regular audits and continuous supervision to ensure compliance with these regulations.

Panama is a member of the World Bank (IBRD), the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), the Central American Bank for

Economic Integration (CABEI) and the Andean Development Community (CAF), and receives multilateral project financing from all of them. In addition, the private windows of the World Bank (IFC International Finance Corporation) and IDB (IDB-Invest) are becoming very active in the country for financing of private projects.

4.3. Profit Repatriation and Investor Protection

There are no limits on the repatriation of capital and there is freedom of movement of capital.

However, according to the legislation for the prevention of money laundering, financial institutions are required to submit information to the Financial Analysis Unit on all transactions made by their clients in excess of US\$10,000.

The Panamanian Constitution promotes private property, protects intellectual property, freedom of commercial activity and the principles of non-discrimination. It also provides foreigners in national territory the same treatment as Panamanian citizens in terms of legal rights. Panama has signed several international legal and commercial treaties that provide protection to foreign investment. Law No. 54 (July 1998) is in force to protect the legal stability of investments against changes in the laws that were in effect at the time the commercial activity was incorporated. The commercial activities that are eligible for this law are; Tourism, Manufacturing, Industries,



Agricultural Exports, Reforestation, Mining, Free Zone Exports, Free Zone Trades, Free Zone Petroleum, Telecommunications, Construction, Ports, Railroads and Power Generation, among others.

5. INFRASTRUCTURE AND LOGISTICS

5.1. Panama Canal and its advantages

The Panama Canal is an 82 km long artificial waterway that crosses the isthmus of Panama, connecting the Atlantic Ocean with the Pacific Ocean. This canal is an essential component in global shipping, known for its system of locks that raise and lower ships, allowing them to pass through efficiently.

This process, which takes approximately 10 hours to complete, is an engineering feat that has revolutionized international shipping and logistics since before the Panama Canal, ships had to make a long voyage around South America to pass from one ocean to another.

In this way, the canal has significantly reduced transit time and costs, becoming a crucial element in the global supply chain, facilitating and accelerating trade between North America, Latin America and Asia.

The canal forms a link between the port of Balboa, located on the shores of the Pacific Ocean, and the port of Cristobal, located on the Caribbean Sea. From its opening in 1914 until 1977, it was controlled by the

United States. Then, through the Torrijos-Carter treaties, control gradually passed to Panama, culminating in 1999, where it was managed by the Panama Canal Authority (ACP), an autonomous entity but dependent on the government of Panama.

Subsequently, an expansion of the canal was built between 2007 and 2016 allowing the inclusion of larger locks for the passage of more prominent ships, with a maximum draft of 18.3 meters and a maximum length of 427 meters, contributing to a more efficient supply chain.

According to the Panama Canal Authority, during 2022, a total of 13,489 ships sailed through the canal, which is equivalent to an average of 37 ships per day. Since its inauguration in 1914, more than one million ships have transited through the canal.

The Panama Canal is vital to international trade, with approximately 14,000 ships transiting through it annually. It accounts for 6% of the world's maritime trade and is critical to the efficient transportation of goods.

Most of the traffic through the canal moves between the Atlantic coast of the United States and the Far East, while traffic between Europe and the west coast of the United States and Canada is the second main route for waterway trade. However, other regions and countries, such as the neighboring countries of Central and South America, are proportionally much more dependent on this vital artery to

promote their economic advancement and increase trade.

The main products transiting the canal are: petroleum and petroleum products, grains, coal and containerized cargo, mainly automobiles, electronics and refrigerated food.

In addition, the canal is a source of income and employment for the Panamanian economy. In 2020 it generated around US\$2.7 billion in revenues for the country, and directly and indirectly employed more than 10,000 people, being a key factor in the country's economic development as it attracts foreign investment and tourism.

5.2. Tocumen International Airport and Global Connections

Tocumen International Airport was recognized by the Official Aviation Guide (OAG) as one of the most connected airports in Latin America and the Caribbean, ranking fourth in its international connectivity ranking. With this measurement, Tocumen surpasses terminals in the region such as: Lima, San Juan, Santiago de Chile, Cancun, Guadalajara and Buenos Aires (Ezeiza).

Currently, Tocumen International Airport has two runways, 54 gates and 12 remote stations. It is capable of handling more than 500 daily take-off and landing operations. Tocumen International Airport is the regional hub for more than a dozen commercial and cargo airlines. In 2023 it connected passengers from more than 36



countries and 85 direct destinations worldwide.

Between January and August 2024, Tocumen recorded traffic of 12.7 million passengers, driven largely by its role as a transfer point for international flights.

Tocumen Airport is located 24 km east of Panama City. There are two main roads that quickly connect the city to the airport: Avenida Domingo Díaz and the Corredor Sur. The areas around the airport have become important industrial zones.

Many companies are considering relocating their warehouses and distribution centers to logistics parks near this airport to take advantage of its transportation connectivity.

5.3. Ports and Interoceanic Transportation Network



Panama is positioned as a world-class logistics hub thanks to its strategic location and advanced port and transportation infrastructure. The country has first class ports on both coasts of the Panama Canal. These ports are vital for the transshipment and redistribution of goods, handling more than 7 million TEUs annually.

Panama has a network of ports that provide a wide variety of services to containerized, bulk, liquid and general cargo, as well as passengers at cruise terminals.

Panamanian ports of the National Port System (SPN) are divided into two groups: state ports and private ports. Private ports are those granted to private operators (concession) after the privatization process of state-owned ports. State-owned ports are those still operated by the State under the administration of the Panama Maritime Authority (AMP) and mostly provide berthing and other related services to local and cabotage users.

Taking advantage of Panama's geographical position as the country's most important asset, several ports around the Atlantic and Pacific entrances to the Panama Canal have specialized in handling containerized cargo and have become a transshipment hub.

Panama has several container ports on the Atlantic that serve mainly the East Coast of North and South America, as well as the Caribbean: Manzanillo International Terminal (MIT), Cristobal and Colon Container Terminal (CCT). The Pacific zone also has terminals that provide container handling services: Balboa and PSA (Panama International Terminal). The Balboa and Cristobal terminals are operated by Panama Ports Company, a member of Hutchinson Port Holdings.

Similarly, the Bocas Fruit Co. terminal in Almirante, located in the northwestern part of Panama in the province of Bocas del Toro, carries out commercial activities of containerized cargo mainly focused on banana exports.

The port activity is complemented by the railroad

activity, Panama Canal Railway Company is the only railroad operator in the country. This railroad is connected on the Pacific with the Balboa port terminal allowing the expeditious loading and unloading of containers bound for the Cristobal and MIT terminals on the Atlantic. The Cristobal terminal allows the loading of passengers and containers with an in-port service. The MIT terminal is located next to the MIT Logistics Park, 500 meters from the port of Manzanillo and 2,000 meters from the port of CCT.

On average, 2,000 containers are transported daily in both directions reaching an annual movement of approximately 650,000 units. The trip covers about 76 kilometers and a travel time of 1 hour and 15 minutes between both terminals with an average of 10 trips per day in each direction according to demand in double-stack trains. The maximum handling capacity has been estimated at 2,000,000 containers per year.

6. SECTORS WITH GROWTH POTENTIAL

6.1. Tourism, Construction and Financial Services Tourism

Panama has more than 2,900 kilometers of coastline, more than 1,400 islands and three natural UNESCO World Heritage Sites. Its biodiversity includes more bird species than Europe and North America combined, and a rich diversity of plants. In addition, the country is home to seven indigenous communities and a vibrant Afro-Caribbean



culture.

Major tourist destinations include the Bocas del Toro Archipelago, famous for its pristine beaches and marine life; Boquete, known for its cool climate and coffee plantations; and the San Blas Archipelago, home to the indigenous Guna Yala community and its beautiful tropical islands.

Adventure tourism is also booming, with activities such as hiking in the Baru Volcano National Park, rafting in the rivers of Chiriqui and diving in Coiba, one of the most important dive sites in the world in the area of Santa Catalina, Veraguas. Other beach areas with important development and opportunities are in the province of Los Santos, Pacific coast between Pedasi, Playa Venao and Cambutal and on the Atlantic coast, in Colon, between Portobelo and Isla Grande.

In addition, Panama is improving its cruise infrastructure with the new Cruise Terminal in Amador, which turns the country into a world-class sustainable tourism destination. This generates positive effects on the local economy, creating jobs and activating tourism-related sectors.

The cruise terminal will accommodate the world's largest cruise ships and connect Panama to major cruise routes in the Caribbean and Latin America. In addition, other tourism infrastructure is being developed in the area, such as hotels, restaurants, and shopping malls, to enhance the tourist experience and

encourage local spending.

Despite the fact that in recent years the Panama Tourism Authority (ATP) and PROMTUR PANAMA have been responsible for developing promotional projects and advertising plans to boost tourism in Panama and publicize the country's wide range of offerings, the capacity of destinations to offer satisfactory experiences to customers (visitors) has not changed substantially in recent years, since investments have been made on an ad hoc basis and little attention has been paid to the maintenance of the infrastructure created.

Construction

Panama offers numerous investment opportunities in the construction sector, driven by its strategic location and the sustained growth of its economy. The expansion of the Panama Canal and the modernization of the port-railroad infrastructure have generated an increase in demand for construction projects, both commercial and residential. This situation has attracted international investors interested in taking advantage of the potential of the Panamanian market.

One of the main drivers of the sector is the development of real estate projects. The growing urban population and foreign investment have stimulated the construction of housing, offices and shopping centers. In addition, the Panamanian government has implemented policies to encourage investment in social housing, which presents an attractive opportunity for

developers interested in contributing to social welfare while generating a return on investment.

The construction sector also benefits from public infrastructure projects, such as roads, bridges, and mass transit systems. The expansion of the Panama subway, the construction of the fourth bridge over the Canal, and the construction of new access roads are examples of initiatives that require considerable investment. Public contracts in these projects offer investors the possibility of participating in tenders and collaborating with the government in the development of key infrastructure for the country.

Finally, sustainability is becoming a crucial factor in Panama's construction sector. Growing environmental awareness has led to a demand for green and sustainable buildings. Investing in sustainable technology and practices can not only result in fiscal benefits, but can also position companies as leaders in an evolving market, aligning with global trends towards sustainability and social responsibility.

There is business potential in the import of construction materials, equipment and machinery for construction and public works development, especially excavators, mechanical shovels and compactors, unsprayed cements and engineering services.

In summary, Panama presents a favorable environment for investment in the construction



sector, with opportunities in residential projects, public infrastructure and sustainable developments. The combination of economic growth, favorable policies and a focus on sustainability makes Panama an attractive destination for investors in this sector.

Financial Services

One of the most promising areas is offshore banking. Panama is known for its confidentiality regime and favorable legislation that attracts international clients. Companies and individuals seek to establish accounts in Panamanian banks to benefit from a favorable tax environment. This opens up opportunities for financial institutions to offer personalized services and advice to clients wishing to explore offshore options.

In addition, the country is in the process of modernizing its regulatory framework, including the implementation of financial technologies (Fintech). The digitalization of financial services is booming, and Fintech startups are gaining ground in the Panamanian market. Investing in Fintech companies that offer innovative solutions, such as electronic payments, online lending and investment platforms, can be highly profitable, especially considering the growing penetration of internet and mobile devices in the region.

Another aspect to highlight is the development of insurance and pension funds. With a growing population and an increase in the middle class, demand for insurance products and retirement plans is on the

rise. Insurance companies that focus on creating products tailored to the needs of the local market, such as health and life insurance, can find a significant niche.

Finally, Panama's strategic location as a gateway to Latin America and the Caribbean also offers opportunities in financial advisory and consulting services for companies looking to expand in the region. Investing in consulting firms offering tax planning, risk management and regulatory compliance services can be a lucrative avenue, given the increasingly complex business environment in the region.

In conclusion, the financial services sector in Panama presents a range of opportunities for investors, from offshore banking and Fintech to insurance and consulting. The combination of a robust financial system, an evolving regulatory framework and a strategic location positions Panama as an attractive destination for investment in this sector.

6.2. Technology and Innovation

Panama is emerging as a vibrant hub for technology and innovation in the region, offering numerous investment opportunities in this sector. The increasing digitization of the economy, driven by the demand for technological solutions in various industries, has created a favorable environment for startups and technology companies. With an increasingly connected population and a government that supports digital transformation, the

country presents itself as an attractive destination for investors interested in this field. One of the most outstanding aspects is the development of technological infrastructure. Panama has invested in expanding its internet connectivity and modernizing its telecommunications systems. The installation of new data centers and the improvement of the fiber optic network are facilitating the growth of technology companies. Investors can find opportunities in the construction and operation of data centers, as well as in the provision of cloud services and cybersecurity solutions.

In addition, the startup ecosystem in Panama is growing. The presence of incubators, accelerators and coworking spaces is fostering innovation and entrepreneurship. Investing in local startups, especially those developing solutions in areas such as Fintech, digital health and e-commerce, can be very promising. These companies are leveraging technology to solve specific problems in the Panamanian and regional market, which increases their growth potential.

Technology education and training also represent a significant investment opportunity. With the advancement of digitalization, the demand for technology skills is on the rise. Investing in training programs, e-learning platforms and digital skills training courses can help meet this demand and contribute to the development of local talent. This initiative not only benefits investors, but also boosts the



country's human capital.

Finally, the Panamanian government has implemented policies to promote innovation, including tax incentives for technology companies and programs to support research and development. These initiatives create an environment conducive to investment in technology and innovation, facilitating access to resources and financing.

In short, Panama offers a landscape full of opportunities in the technology and innovation sector, from the development of technological infrastructure and the promotion of startups, to training and favorable government policies. This dynamic and growing environment makes Panama an ideal place for investors to take advantage of the emerging trends in the technology sector.

6.3. Agribusiness: Traditional and Non-Traditional Products

including a favorable climate and fertile soils. The agribusiness sector has traditionally focused on products such as rice and bananas, but there is growing interest and potential in non-traditional products such as pineapples, melons, tubers, coffee, flowers, and orchids.

Panama is also known for its high quality cocoa production, which has gained international recognition. The "Panama Oro" cocoa variety has won awards in various international competitions, opening up opportunities for the export of premium cocoa and chocolate products. In addition, the production of organic honey and other bee products is on the rise, benefiting from the country's biodiversity and climate.

Export Programs and Market Opportunities

- Panama Exports Program: Supports the country's agricultural, agroindustrial and industrial sectors to promote and diversify exports. It offers training, advice and technical assistance to improve the competitiveness of Panamanian products in international markets.
- Agroexport Seminars: Organized by the Ministry of Commerce and Industries, these seminars instruct producers on export logistics, market analysis and international standards.

Between January and September 2023, Panama exported products such as fresh bananas, cane sugar, yellowfin tuna, frozen shrimp, coffee, and a variety of fresh and frozen fish.

These products generated significant revenues and represent the growth potential of Panama's agroindustrial sector.

Panamanian specialty coffee, particularly Geisha coffee, has achieved record prices at international auctions, positioning Panama as a producer of high quality coffee.

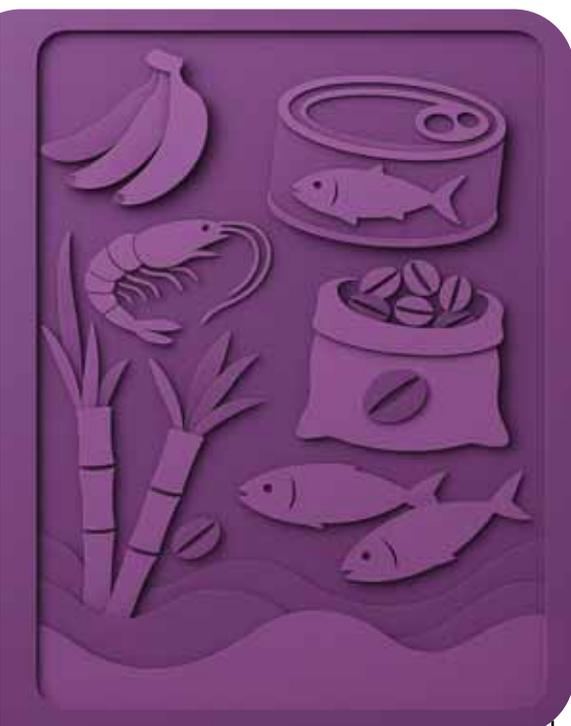
The growing demand for organic and sustainable products in developed markets also presents a significant opportunity for Panamanian farmers who adopt these practices.

7. CULTURAL AND SOCIAL ASPECTS

7.1. Business Culture, Negotiation Practices and Business Etiquette

Panama's business culture is characterized by a mix of local and international influences, reflecting its position as an important trade and business center in the region. Friendliness and the establishment of personal relationships are key elements in the Panamanian work environment. Companies value face-to-face interactions and trust between colleagues and business partners, which means that building strong relationships can be as important as technical skills.

Respect for hierarchy is another fundamental characteristic of Panama's business culture. Decisions are usually made at the highest levels of the organization, and it is common to expect clear guidelines from



Panama has exceptional natural advantages for agribusiness,

leaders. However, teamwork and collaboration is also valued at all levels. This hierarchical dynamic is complemented by a focus on open communication, where dialogue and feedback are encouraged, especially in inclusive work environments.

Punctuality and meeting deadlines are aspects that are appreciated in the Panamanian business environment. Although the culture may be perceived as more relaxed compared to other countries, companies tend to have a professional approach to project execution and fulfillment of responsibilities. This translates into a balance between flexibility in labor relations and seriousness in business commitments.

Cultural diversity also plays an important role in Panama's business culture. As a country with a rich mix of traditions and influences, companies often benefit from a broad perspective that fosters creativity and innovation. This translates into an inclusive work environment, where differences are valued and diversity of thought is encouraged.

Finally, adaptation to technology and innovation is gaining ground in Panamanian business culture. With the growth of digitalization and the rise of startups, more and more companies are incorporating technological solutions into their processes. This focus on modernization and continuous improvement reflects an open and proactive mindset, which is essential to compete in a globalized business environment.

Finally, in the realm of international negotiations,

adaptability and understanding of cultural differences are crucial. Businesspeople operating in Panama must be sensitive to the diverse cultural influences present in the country and be willing to adjust their approach accordingly. This adaptability not only improves the chances of success in negotiations, but also strengthens long-term business relationships.

In short, Panama's business culture is an amalgam of personal relationships, respect for hierarchy, punctuality, cultural diversity and openness to innovation. This dynamic and enriching environment makes Panama an attractive place to do business and attract talent, contributing to the country's economic growth.

7.2. Social Responsibility and Environmental Sustainability

Social responsibility and environmental sustainability have become highly relevant in today's business environment, especially in a world that is increasingly aware of environmental and social challenges. In Panama, many companies are recognizing the importance of integrating sustainable practices into their operations, not only as a marketing strategy, but as a genuine commitment to the community and the environment. This trend is driven by the growing consumer demand for products and services that are ethically responsible and sustainable. Panamanian companies are adopting various initiatives to promote sustainability. These

include the implementation of cleaner production practices, waste reduction and the use of renewable resources. In addition, many organizations are investing in projects that protect local biodiversity and support the conservation of ecosystems. Creating recycling programs and promoting efficient water use are examples of how companies can contribute to environmental sustainability in their community.

Corporate social responsibility (CSR) also manifests itself in the commitment of companies to social welfare. This includes investing in community development, supporting education, fostering social inclusion and providing fair working conditions. Companies that implement CSR strategies tend to benefit from increased consumer loyalty and better market positioning. In addition, these practices can attract talent, as many employees seek to work for organizations that share their ethical values.

Transparency is a key component of CSR and sustainability. Companies that openly communicate their efforts and results in these areas tend to gain the trust of the public and their stakeholders. Publishing sustainability reports and setting clear targets helps organizations to demonstrate their commitment and be accountable for their social and environmental impact. It also enables them to identify areas for improvement and adapt to changing consumer and societal expectations.

Finally, the regulatory



environment in Panama is also beginning to favor more sustainable practices.

The government has implemented regulations that promote environmental sustainability and social responsibility, encouraging companies to adopt higher standards. This trend is transforming the business landscape, creating a space where sustainability and social responsibility are not only valued, but are becoming essential requirements for long-term business success.

7.3. Practical Tips for Establishing Business

1. **Legal and Tax Advice:** Hire a local lawyer and accountant with experience in foreign investment to ensure compliance with all regulations, including the opening of banking relationships.
2. **Market Assessment:** Conduct a thorough analysis of the local market and business opportunities before making the investment.
3. **Networking:** Build a network of local contacts that can provide support and advice during the establishment process.

It is also helpful to participate in local chambers of commerce and business associations, which can provide valuable resources, networking events and access to market information and regulations. Staying informed about changes in local laws and policies is crucial to ensure a successful and compliant operation.

8. IMPORT AND EXPORT PROCESSES

8.1. International Trade Regulations

Panama has established various regulations and treaties that regulate trade with other countries. This includes laws related to customs, tariffs, and specific regulations for the import and export of products. One of the pillars of trade regulation in Panama is the National Customs System, which regulates all aspects of the customs process, including tariff classification, valuation of goods and clearance procedures.

In addition, Panama is a member of several international organizations that promote free and fair trade. Panama joined the World Trade Organization in 1997 and has a large number of Free Trade Agreements (FTAs) in force: United States, European Union, Canada, Chile, Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua), Mexico, Peru, Singapore, Taiwan, South Korea and Israel, the last two signed in 2020.

In terms of product-specific regulations, Panama has laws that regulate the quality and safety of imported goods. This includes the need to comply with technical and sanitary standards, especially in sectors such as food, medicines and chemicals. Panamanian authorities, through entities such as the Ministry of Commerce and Industries and the National Customs Authority, oversee compliance with these regulations to ensure consumer safety and protect the

environment.

8.2. Customs Procedures and Tariffs

The National Customs Authority is the highest body of the national customs service and the State institution in charge of controlling, monitoring and supervising the entry, exit and movement of goods, persons and means of transport through the country's borders, ports and airports.

It is an institution with its own legal personality, its own assets and internal autonomy, and is subject to the policy of the Executive Branch, through the Ministry of Economy and Finance, except in the case of security matters, which will depend on the Ministry of Government and Justice.

All merchandise entering or leaving Panama must be destined to a customs regime, established by the taxpayer, according to the function it will be given in national territory or abroad. When a merchandise is presented to customs for its entry into the country, an official document (pedimento) must inform the destination of the merchandise.

The Customs Regimes are regulated by Decree Law No. 1 of February 13, 2008, which establishes that imported goods may be destined to the following:

Definitive customs regimes:

- Imports.
- Imports for consumption.
- Import of goods with exemption of customs duties.
- Reimportation in the same state.



- Export.
- Re-export.

Suspensive customs regimes:

- Transit.
- Warehouse.
- Transshipment.
- Temporary admission for re-export in the same state.

Customs procedures for industrial operations:

- Reimbursement.
- Temporary admission for inward processing.
- Temporary export for outward processing.
- Duty-free inventory replenishment.

Special regimes

- Free trade zones.
- Duty Free Shops.

Regarding prohibited goods, the Law establishes that the import or export of goods harmful to the environment, human or animal health or plant preservation, as well as those that threaten the security of the State and the economic and financial system and others determined by regulations or special laws will not be allowed.

These products include the following: counterfeit coins and instruments for making coins; opium, liquors, wines, beers and medicines with labels that express a content different from the real one; dishonest printed publications; foreign lottery or raffle tickets; non-original products that imitate the confection of traditional products of indigenous peoples; dynamite, gunpowder, nitroglycerin and other explosive materials.

Regarding import tariffs, for imports of raw materials and fully processed products, the tariff is approximately 10%, while for semi-finished products the average tariff is 3.9%.

The customs tax obligation arises as a consequence of the entry or exit of goods from the customs territory of the Republic. The taxable base for the application of these taxes is the value of the merchandise in customs. The customs taxes are:

- Import, export or re-export customs duties, established in the respective tariffs and special laws.
- Contributions arising from the contracting of the Special Customs Control and Surveillance Service and the additional workdays worked by the officers.
- Contributions for physical custody, customs seals or maritime custody services.
- Other rights established by special laws.
- The Administrative Fee for Customs Services.
- Other contributions and other fees for customs services.
- The Tax on the Transfer of Movable Goods and

- Services, the Selective Consumption Tax and any other non-customs tax shall be assimilated to customs duties for the purposes of collection by the Authority.
- Any other tax that it is legally required to collect.

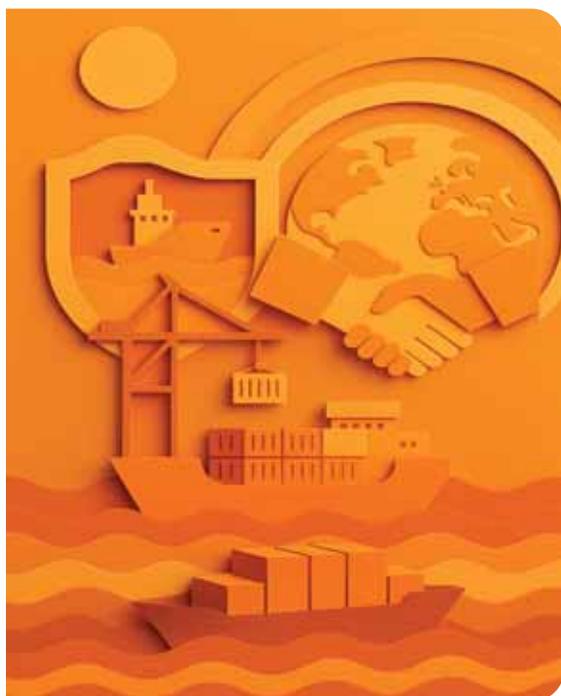
The Panamanian Tax Code establishes that all national products may be exported.

In order to export, the exporter must notify the Government and submit to the Technical Unit of Export Procedures of the Vice-Ministry of Foreign Trade the necessary documents to authorize the export.

8.3. Re-export Facilities for Neighboring Markets

As we have already indicated, Panama has established itself as a key logistics hub in the region, offering significant facilities for the re-export of products to neighboring markets. Thanks to its strategic location and the existence of an efficient transportation system, companies operating in Panama can benefit from advantageous conditions for re-exporting goods to countries mainly in Central America and the Caribbean, and even beyond, such as North America, Europe and Asia. This dynamic has positioned the country as a preferred distribution center for companies seeking access to regional markets.

One of the main facilities that Panama offers for re-export is, as mentioned above, the Colon Free Zone and other Free Trade Zones, one of the largest in the world. These special zones allow companies to store,



process and redistribute products without having to pay import duties. Traders can receive products from different parts of the world, store them in the zone and then ship them to other countries, which minimizes costs and optimizes delivery times. The free zone is an ideal environment for companies to manage inventories and conduct international trade operations in an agile manner.

In addition, Panama has an efficient customs system that facilitates re-exportation. The authorities have implemented simplified procedures for the declaration and clearance of goods, which significantly reduces waiting times. This approach allows companies to react quickly to changes in demand from neighboring markets, ensuring that products reach their destination in a timely and efficient manner. The modernization of customs processes, with the use of technology, has been fundamental to achieving this agility.

Another factor that strengthens re-export from Panama is its transportation infrastructure. The country has a network of high quality roads, ports and airports that facilitate the movement of goods. The Panama Canal, for its part, is a vital resource that allows efficient maritime transit between oceans, which directly benefits companies seeking access to markets in other regions. This comprehensive infrastructure allows products to be distributed quickly, ensuring the competitiveness of Panamanian companies in the international arena.

Panama has also established trade agreements with several countries in the region, allowing preferential conditions for the re-export of products.

9. USEFUL RESOURCES AND CONTACTS

9.1. Chambers of Commerce and Business Associations

Chamber of Commerce, Industries and Agriculture of Panama (CCIAP) -

It is the main business entity in the country, which brings together companies from various sectors and promotes economic and commercial development.

Chamber of Commerce and Industry of Colon -

Represents the businessmen of the province of Colon, one of the most important economic areas of the country, especially in commerce and logistics.

International Chamber of Commerce of Panama (ICC Panama) -

It is part of the worldwide network of the International Chamber of Commerce, promoting international trade and good business practices.

Chamber of Commerce and Production of Chiriqui -

Represents the businessmen of the province of Chiriqui, focusing on regional development and support to local companies.

Camara Panameña de la Construcción -

<https://capac.org/>: Represents entrepreneurs in the

construction sector.

Asociación Panameña de Exportadores (APEX) -

Focuses on promoting exports and helping exporters access international markets.



Asociación de Industriales de Panamá (AIP) -

Represents the companies of the industrial sector, promoting their interests and the development of the national industry.

Panamanian Tourism Association (APAT) -

Promotes the development of tourism in Panama and represents tourism industry stakeholders.

Asociación de Banqueros de Panamá (ABP) -

Groups together the country's financial institutions and promotes the development of the banking sector.

Asociación de Hoteles de Panamá (AHP) -

Represents hotels and the hospitality sector, working in the promotion and development of tourism.

National Chamber of Commerce, Services and Tourism of Panama (CANACO) - Groups commerce, services and tourism companies, promoting a favorable environment for these sectors.

Panamanian Association of Business Executives (APEDE) - <https://apede.org/>: Promotes entrepreneurship and the creation of new companies in the country.

Asociación Panameña de Corredores y Promotores de Bienes Raíces (ACOBIR) - Represents the real estate owners and promotes the development of the real estate sector.

9.2. Government Agencies and Financial Institutions

Ministry of Commerce and Industries (MICI) - Regulates and promotes commerce and industry in Panama.

Ministry of Economy and Finance (MEF)- Manages the State's economic policies, financial planning and budget.

Ministry of Foreign Affairs (MIRE) In charge of diplomatic relations and foreign policy of the country.

Ministry of Education (MEDUCA) - Responsible for public education and educational policies in Panama.

Ministry of Health (MINS) - In charge of public health and promotion of health policies.

Ministry of Public Works (MOP) Responsible for infrastructure and the development of public works in the country.

Panama Canal Authority (ACP) Manages and operates the Panama Canal, crucial for international trade.

National Customs Authority - Regulates imports and exports, supervising foreign trade.

Ministry of Labor and Labor Development (MITRADEL) - Regulates employment and labor relations in Panama.

National Environmental Authority (ANAM) - Responsible for the protection and conservation of the environment and natural resources.

Dirección General de Ingresos (DGI) - <https://dgi.mef.gob.pa/>: Manages tax collection and fiscal policy in the country.

Panama Tourism Authority (ATP) - <https://www.atp.gob.pa/>: Promotes the development of tourism in the country and coordinates tourism policies.

National Institute of Statistics and Census It exercises the functions of directing and forming the national statistics.

In Panama, there is a fairly extensive banking offer and generally the selection of the bank is made according to the client's profile since Panamanian banks have specific preferences about the markets they wish to serve and different risk appetites. The following is a list of some of the largest and

most diverse financial institutions.

Banco Nacional de Panamá State-owned bank and the main commercial bank in the country, offering a wide range of financial services.

Banco General - One of the largest and most popular banks in Panama, offering banking services for individuals and local businesses.

Banistmo - Part of the Bancolombia Group, it offers banking services through various platforms and products.

Multibank Offers financial services to both individual and corporate clients, standing out in the private and international banking sector.

Credicorp Bank Offers financial services to both individual and corporate clients, standing out in the private and international banking sector.

Banesco Part of the Banesco Group, Venezuela, Banesco Panama has established itself as a reliable bank that offers a wide variety of financial services.

Prival Bank Private financial institution in Panama that specializes in offering private banking and wealth management services.

MMG Bank Panamanian financial institution that specializes in offering private and commercial banking services.



9.3. Local Law Firms and Consulting Firms

Quijano & Asociados - Abogados

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