
PANAMA CAPITAL MARKETS STUDY

*Bureau for Private Enterprise
U.S. Agency for International Development*

Prepared by: Stimson Eveleth

*Sponsored by: Financial Markets Project
Project Number 940-2005
Prime Contractor: ArthurYoung*

June 1986

N 68780
PII-11-317

DPE -2005-C-01-5160-00

PANAMA CAPITAL MARKETS STUDY

Purpose:

To review Panamanian capital markets so as to provide USAID with indications as to the format and probable objectives of a full blown study of capital markets leading to USAID policy recommendations for the Government of Panama.

Conclusions:

1. Since Panama is a dollars based economy and has no central bank it has little control over its own fiscal and monetary policy. In many ways, therefore, the Panamanian economy could be viewed as an extension of the United States.

2. The International banks located in Panama are mainly traders and placers and as such do not contribute a great deal, besides employment and taxes, to the local economy. Nevertheless, they lend a sophistication to the market which, if captured could help Panama develop into a major international financial center.

3. The presence of the Panama Canal and the Free Zone are items which, if more closely tied to international finance and trade, could boost the local economy. The local economy itself is probably too small to provide significant economic stability. Therefore, every effort should be made to develop Panama into an international service and financial center.

4. The absence of competing sources of funding puts banks in a privileged position. Consequently the market is fairly simple and credit is available to only the best risks on very conservative terms.

Recommendation:

1. Engage a contractor to provide USAID - Panama with a 2 to 5 year strategic and tactical plan which would lead to:

- The development of local money markets and capital markets.

- The integration of the local and international banking systems.

- The development of Panama into a truly International Financial Services center.

2. The contractor would be expected to make recommendation on such things as:

- The desirability of establishing financial institutions which compete with banks (venture capital companies, merchant banks, leasing companies, etc.)

- Means of improving the lending procedures of banks in order to provide greater term and project financing to a wider universe than is now the case.

- Specific action that USAID can take unilaterally or in cooperation with the financial community to increase the potential number of institutional investors and liberalise their investment policies.

- Probable oversight requirements on the financial services community.

- Whether such innovations as making a market in Latin American debt is a proper function for the Panamanian

financial services market.

Constraint:

This is a fairly large and comprehensive task and will require a fairly heavy commitment of individuals with a variety of skills. (My guess is that it would take 3 people 4 to 5 weeks of which 2 would be on sight in Panama)