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And the wave of change continues…

Public sentiment is everything. With public sentiment nothing can fail; without it nothing can succeed. He who molds public sentiment goes deeper than he who enacts statues or decisions possible or impossible to execute.

Abraham Lincoln

Indeed, if it's one thing that the series of election outcomes witnessed throughout the world over the past couple of years has re-enforced, is that change is simply one vote away! Not only have we experienced an alteration of the international financial sector beyond recognition, but we have also seen the political landscape change in unimaginable ways in several countries throughout the world. Undoubtedly, the emergence of Barack Obama's victory in the United States' 4 November 2008 presidential elections will always be deemed a historic moment. In the Latin American region, on 15 March 2009, we saw the end of an 'ARENA' as the opposition FMLN party made history when its candidate became El Salvador's first left-wing president since 1838! Even in the Caribbean region, Jamaica swore in opposition candidate, Bruce Golding, of the Jamaica Labour Party back in late 2007, to name a few.

The latest addition to this list is Panama. According to preliminary data, on 3 May 2009, the right-wing opposition Alliance for Change's (AIC) candidate, Ricardo Martinelli, defeated the ruling PRD party's Balbina Herrera by a comfortable 60% to 37% margin. The outcome came as no shock as pre-election polls predicted the success of the opposition's second attempt for the presidency. Whilst the change in government sent a clear signal throughout the country, it also sent a message throughout the Latin American region which has seen a series of left-wing victories including El Salvador and Ecuador since the beginning of 2009. Despite the expected results, as with other elections outcomes, questions and concerns always arise in terms of the impact on the economy, especially in the context of an extremely uncertain global environment.

Panama has persistently managed a stable macroeconomic environment in light of strong domestic factors which enabled sustainable economic growth alongside prudent fiscal policies. In fact, since 2004, the economy has grown on average 8.75% per year with 9.2% growth recorded in 2008. Panama joins economies throughout the world that is expected to slow considerably in 2009 as the effects of the global recession weigh heavily on the key drivers of growth in the economy such as exports. Nevertheless, the Panamanian economy is one of few throughout the Latin American region expected to post positive growth this year.

The strong track record of the previous administration is a clear indication of the paramount tasks now facing the newly appointed government. Indeed, in the four years since 2004 under the previous Torrijos administration, the general government deficit declined from 5.5% of GDP to only 1% of GDP whilst the debt-to-GDP ratio fell from 65% to 43%, both as at the end of 2008.

Even as the newly elected AIC party is expected to face challenges going forward, it is the author's opinion that there will be no radical change to the current market-oriented policies implemented by the previous administration given its tremendous success in the past. Of course, in the short term, a key challenge for the Martinelli government is boosting growth prospects in the midst of a fragile global economy. With diversification being the key to Panama's success over the past five years, policies to sustain this and strengthen the domestic economy should be a major focus of the new government going forward.

According to Standard & Poor's, '*as the examples of Mexico and Brazil have shown, the alternation of parties strengthens a country's political institutions, gives confidence to the policy continuity, enhances investment climate, and produces stronger economic growth'.*

Panama is expected to enter into a period of political transition; however, Martinelli is no newcomer to politics and has been in the political arena since 1994. Over the 1999-2003 period, Martinelli was the chairman of the board of directors of the Panama Canal Authority and in 2004, he ran against Martin Torrijos in the presidential elections.

It should be noted that the success of the newly elected party is also attributable to alliances formed during the pre-election campaign comprising a total of four political parties. Whilst for now we do not foresee any significant change in the politics of Panama, we emphasize that the continued support of the alliance must be monitored as the new government faces the challenges that lie ahead.

The Martinelli administration has already pledged to move ahead with the USD5.25 billion canal expansion project which is currently under budget and on schedule to meet its 2014 deadline. We also view Martinelli's previous experience as chairman of the board of directors of the Panama Canal Authority as a positive given the significant impact a project of this magnitude will have on the economy. As the global economic slowdown takes a toll on the canal's already declining earnings due to expansion costs, effectively managing the project coupled with strong accountability will be key.

In addition to this, the new government's commitment to push ahead with a free trade deal with the US bodes well for the largely trade dependent economy. Furthermore, in an attempt to attract long term investment flows, the Martinelli administration plans on boosting infrastructure development including a subway system for Panama City. This coupled with activity on the canal expansion, should stimulate local economic activity leading to a quicker than expected recovery in the economy over the medium term.

Prior to the elections, on 6 March 2009, Standard and Poor's affirmed Panama's 'BB+' long term sovereign credit ratings with a stable outlook. The ratings reflected the economy's persistent stable macroeconomic environment whilst emphasizing the need to maintain fiscal balance in light of the canal expansion project in the context of a fragile global economy.

Without a doubt, the contagion of the global recession has played a key role in the delay of Panama's possible upgrade to investment grade status, which was greatly anticipated in 2009. However, we do not see the outcome of the elections as a credit event and in fact, believe this augurs well for the economy in light of expected continued political stability and the implementation of market friendly policies which are expected to foster an attractive investment climate. These coupled with fiscal prudence should boost Panama's prospects of achieving investment grade status over the next couple of years.

All in all, taking into consideration the above factors, the market oriented policies proposed by the newly elected Martinelli administration bodes well for the Panamanian economy both in the short and long term. This, however, is not without its difficulties. Adding to the challenge of a smooth transition in the short term, is sustaining positive growth through domestic factors, such as major construction projects, since global demand is expected to wane considerably. We foresee a rosier picture in the medium to longer term as key projects stimulate local activity and boost growth prospects. For Panama, the outcome of the recent elections and the change in government should provide some comfort in these unprecedented times. This example of a seamless, positive change in government is one that the entire Caribbean can learn from – the question is – will the lesson be learnt.

FINANCIAL & ECONOMIC INDICATORS

As at 7 May, 2009

Exchange Rate/US$	Closing Value	Previous Week
Yen	99.12	98.63
Euro	1.34	1.32
Jamaica	88.85	88.98
Guyana	205.20	204.70

Commodity Prices	Closing Value	Previous Week
Crude oil (US$/bbl)	56.71	51.12
Natural Gas (US$/mmbtu)	3.95	3.25
Gold (US$/Troy Ounce)	910.70	888.20

Eurobond Indices (As at 7-May-09)	
Lehman Brothers Global Aggregate Index (Return % YTD)	-1.96
JP Morgan EMBI+ (Basis points)	462
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	12.90

Policy Interest Rates (%)	Closing Value	Previous Week
United States	0-0.25	0-0.25
Euro Zone	1.00	1.25
Japan	0.11	0.10
Brazil	10.25	10.25
Trinidad	8.00	8.00
Jamaica	17.00	17.00
Barbados	3.00	3.00

Market Interest Rates (%)	Closing Value	Previous Week
US 90-day T-Bill	0.18	0.13
US 10-Yr Treasury	3.34	3.12
3-month UK Libor	1.43	1.45
Japan 90-day T-Bill	0.38	0.38
Brazil 90-day T-Bill	9.70	10.29
TT 90-day T-Bill	2.32	2.30
Jamaica 90-day T-Bill	19.82	19.82
Barbados 90-day T-Bill	3.92	3.85

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, www.lehman.com