Panama Viewpoint

In Defense of Pension Reform: Debunking Investor Myths. Remain OW on EXD.

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Out-of-consensus bullish view on Panama

We have an out-of-consensus bullish view on Panama based on the three arguments: 1) investors underestimate the government's commitment to fiscal consolidation, 2) the prospect of the Minera Panama copper mine re-opening in 2026, and 3) investors underappreciate the positive impacts of social security reform which merged two existing pension regimes, increased contributions, and changed certain benefit formulas.

Reform improves financial sustainability of system

Three positive fiscal implications from the reform: 1) higher employer contributions that improve the fiscal deficit by 0.4% of GDP a year (by 2029), 2) liquidity relief for the government ($16.1bn over ten years) via merger of legacy pension subsystems, and 3) lower net present value of pension liabilities (-10pp of GDP by our estimates, a fifth of the pre-reform liabilities, even without the government's $996mn annual transfer).

Myth 1: Reform only has one parametric change

Aside from increased contributions, the overhaul introduced the "notional accounts" formula for new entrants to the pension system. These accounts fundamentally alter the calculation of benefits by linking them to contributions and investment returns. While Congress did not approve an increase in the retirement age, the accounts system embeds an incentive to defer retirement since benefits rest on workers' contributions.

Myth 2: The reform was substantially watered down

The net short-run fiscal impact of the reform is expected to be around 0.7% of GDP (by 2029). The fiscal deficit will improve due to 1) higher private sector contributions (0.4% of GDP) and 2) the transition to notional accounts will allow the government to count as revenue the defined-contribution portion of the previous mixed regime (0.4% of GDP). From this, we subtract an increase in non-contributory pensions (0.1% of GDP). In the long-run, the reform also dramatically reduces the present value of pension liabilities.

Myth 3: $996mn annual transfer implies a large fiscal cost

The new yearly transfer from the central government to the pension system ($966mn or 1.1% of GDP) is often characterized as a fiscal burden. We disagree because: 1) the transfer nets to zero at the Non-Financial Public Sector (NFPS) level; 2) it can be mostly financed by the pension system's purchase of Treasury securities (in which case the consolidated NFPS debt ratio would not increase); and 3) the transfer is lower than would be required without the reform (liquidity relief of $16.1bn over ten years).

EXD Strategy: Maintain Overweight

We maintain our Overweight (OW) recommendation on Panama's external bonds (EXD). Panama's risk premium (2.0 notches discount to its ratings, or about 80bp) is attractive and could compress if the market gives more credit to the pension reform and consensus moves to our base case of no second high-yield downgrade this year.

Refer to important disclosures on page 26 to 28. Analyst Certification on page 24. Valuation & Risk on page 24. 12843997

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Starting point: before the reform

Before the recently approved reform, Panama's pension system had two main components: 1) a legacy pay-as-you-go regime that was closed to new entrants, generated an operational deficit, and had nearly exhausted its reserves, and 2) a newer mixed regime with two pillars (a defined benefit and a defined contribution) that generated an operational surplus and was accumulating reserves.

The two sub-systems were previously segregated. Therefore, the surplus from the mixed regime could not be used to cover the deficits of the legacy pay-as-you-go regime.

Exhibit 1: The old pension regimes, before the 2025 reform
Data comes from the latest published financial statement of the Social Security Institute (CSS)

	PAY-AS-YOU-GO (purely defined benefit)	MIXED SUBSYSTEM	
		Defined benefit component	Defined contribution component
Net profit in 2023 ($), before extraordinary transfers from government	-$674mn (deficit)	$710mn (surplus)	$462mn (surplus)
Reserves (or assets under management) by the end of December 2023	$352mn in reserves. Additionally, there is a trust fund (managed by Banco Nacional), which had $1,086mn by year-end 2023. This trust fund is used to pay for the deficits of the "pay-as-you-go" regime. However, the $1,086mn were already encumbered by the pension deficits of 2021 (-$464mn), 2022 (-$654mn), and 2023 (-$674mn) that hadn't been paid yet.	$5.716bn from defined benefit component	$3.188bn in individual pension accounts
Status	Closed to new entrants since 2005 pension reform	Open to new entrants until March 2025 when the new pension reform entered into force	

Source: BofA Global Research, Social Security Institute (CSS)

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The "Pay-as-you-go": before the reform

1%-of-GDP deficit in the Pay-as-you-go regime

Before we delve into the details of the reform, it's useful to describe the background. The starting point was a $901mn (1%-of-GDP) deficit in the pay-as-you-go pension regime in 2024, up from $674mn (0.8% of GDP) in 2023. This definition of the deficit is presented in the CSS' financial statements.[1] It's equal to the pay-as-you-go's revenues, minus expenditures, plus central government transfers (roughly constant between 2018 and 2024, around $150mn per year). It doesn't include the extraordinary transfer from the Trust Fund (managed by Banco Nacional) to pay-as-you-go which is huge and can

[1] See page 98 (*"resultado del ejercicio antes de aportes extraordinarios del subsistema exclusivamente de beneficio definido"*) at https://transparencia.css.gob.pa/wp-content/uploads/2024/09/ESTADOS-FINANCIEROS-2023-2022.pdf.

vary a lot from year to year ($517mn in 2023 and $464mn in 2024). Excluding both the central government and Trust Fund transfers, the deficit was 1.2% of GDP in 2024.

Operational deficit covered by transfers, Trust Fund, and reserve drawdown

The operational deficit (largely worker contributions minus pension benefits) of the pay-as-you-go was covered through a combination of: 1) transfers from the government (roughly constant around $150mn per year), 2) transfers from a stabilization Trust Fund managed by Banco Nacional, and 3) drawing down on technical reserves. See Exhibit 3.

Notably, by 2024 the reserves were exhausted, and the Trust Fund was encumbered. That is, the Trust Fund's funds were already accounted for by deficits from prior years which had not yet been transferred.

Pension reform has been top priority in policy agenda

As shown in Exhibit 2, the "pay-as-you-go" deficit had been growing at a breakneck pace over the past several years, reaching 1% of GDP in 2024 due to the retirement of more affiliated workers that were not replaced by new contributors (since the system is closed to new entrants). We believe this explains why the Mulino administration put pension reform as the number one priority in its policy agenda when it assumed office in 2024.

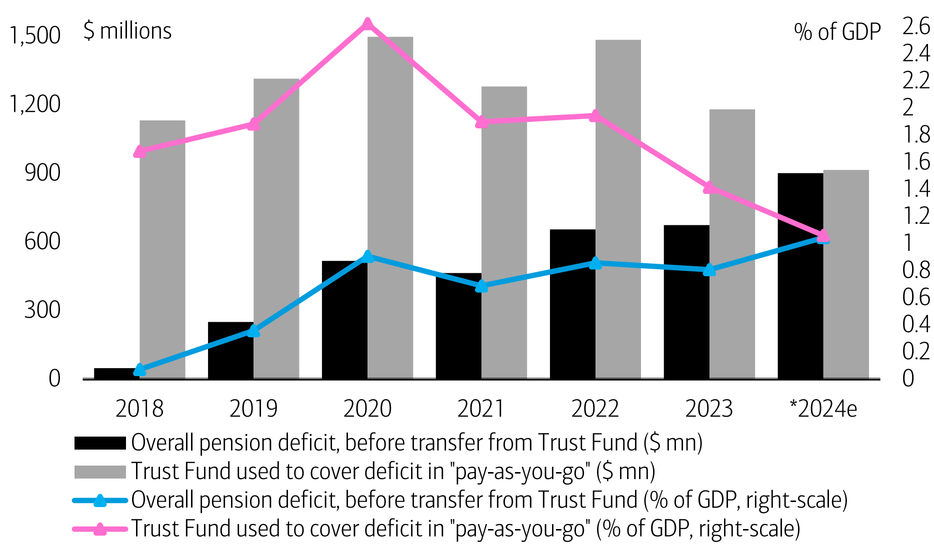
Given the depletion of reserves, the central government would need to pay extraordinary transfers into the subsystem to continue paying pension benefits in full.

Pay-as-you-go reserves and Trust Fund were encumbered

Before the 2025 social security reform, there was a Trust Fund, managed by Banco Nacional (largest state-owned bank), which was used to cover the deficits of the "pay-as-you-go" regime. The Trust Fund's balance was $915mn in year-end 2024. However, it hadn't yet paid for the deficits of 2022 ($655mn), 2023 ($674mn), and 2024 ($901mn). In 2024, the addition of the unpaid deficits ($2.2bn) more than exceeded the sum of the Trust Fund ($915bn) and the "pay-as-you-go" reserves ($9mn).[2]

Exhibit 2: OVERALL DEFICIT in "pay-as-you-go" pension regime (purely defined benefit) and balance of Trust Fund (managed by Banco Nacional) that is used as a buffer to absorb the deficit

The deficit in the "pay-as-you-go" grew at an average annual pace of 35% in the past five years



Note: Most 2024 figures in Exhibit 2 come from a presentation of the head of the Social Security Institute (CSS), Dino Mon, to Congress, *"Reforma Ley 51 de 2005"*, dated November 2024. The CSS' 2024 financial statements have not been published yet.

Source: BofA Global Research, Social Security Institute (CSS), Ministry of Finance (MEF), Statistics Agency (INEC)

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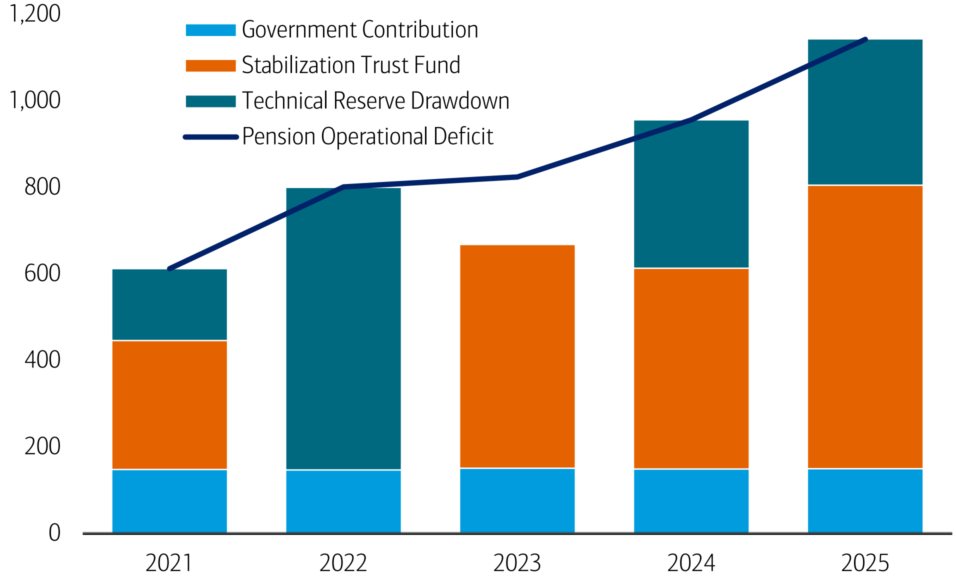
[2] From presentation of Dino Mon to Congress, *"Reforma Ley 51 de 2005"*, November 2024.

Exhibit 3: "Pay-as-you-go" operational deficit (largely worker contributions minus pensions, $mn), and how it was covered: govt. contribution, transfer from Trust Fund, and drawdown of reserves
It is unclear what happened in 2023, as it seems like the Social Security Institute (CSS) received money from somewhere else (~$160mn) to cover the operational deficit



Source: Presentation of the head of the Social Security Institute (CSS), Dino Mon, to Congress, "Reforma Ley 51 de 2005", November 2024.
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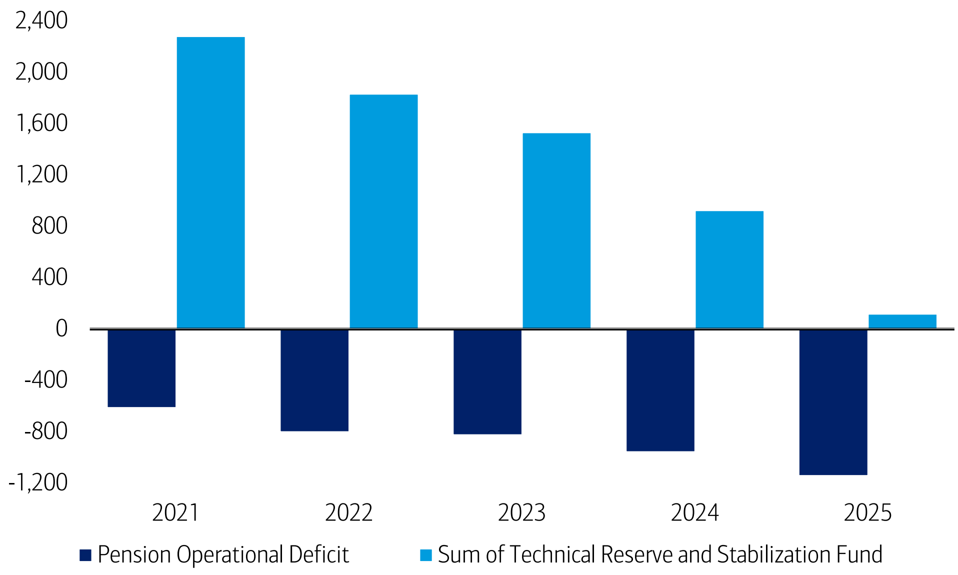
Exhibit 4: "Pay-as-you-go" operational deficit and sum of reserves & Trust Fund ($mn)
Sum of Trust Fund (managed by Banco Nacional) and "pay-as-you-go" reserves was likely going to be close to zero by the end of 2025. However, after the reform, all the funds were pooled into the new system's reserves



Source: Presentation of the head of the Social Security Institute (CSS), Dino Mon, to Congress, "Reforma Ley 51 de 2005", November 2024.
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The "mixed" subsystem: before the reform

"Mixed" pension regime was sustainable

The "mixed" regime (partly defined-benefit, partly defined-contribution) was created by the 2005 pension reform. Following the reform, workers who were 35 years or younger became affiliated to the new "mixed" regime. Older people, from the pay-as-you-go, were given the choice to voluntarily migrate to the "mixed" regime but lacked incentives because the "pay-as-you-go" pension benefit formula was more generous.

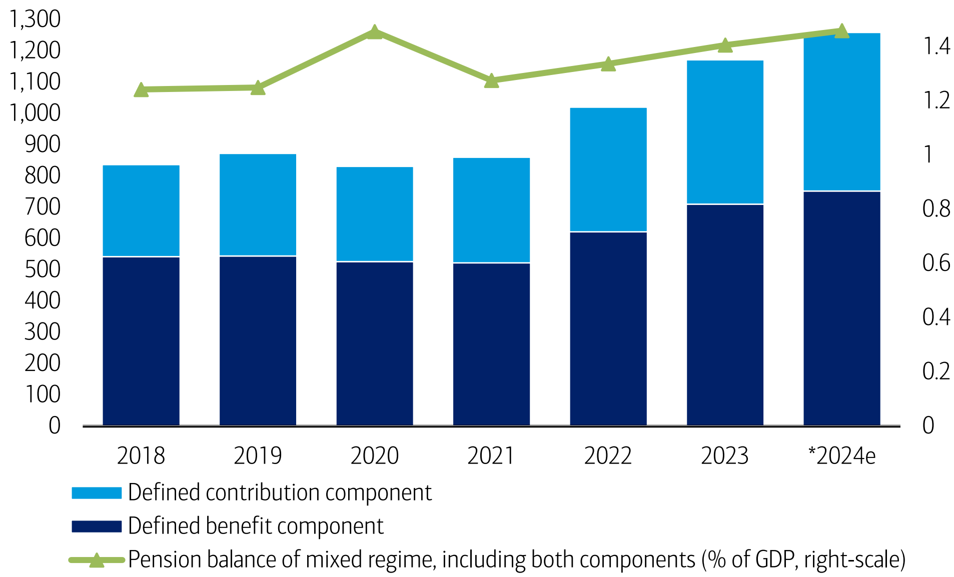
The purpose of the 2005 (previous) reform was to move young people to a more financially sustainable pension regime. The defined-contribution pillar was fully funded by contributions because it comprised individual accounts whose assets were used to pay pensions in the future.[3] Because this subsystem is newer, it has very few retirees and thus pays very little in retirement benefits.

"Mixed" regime had $1.2bn surplus and $8.9bn reserves

The latest financial statements of the Social Security Institute (CSS), from 2023, show the "mixed" regime had a $710mn operating surplus in the defined-benefit component and a $462mn operating surplus in the defined-contribution (personal savings) component. That is a $1.2bn total surplus, mirroring the fact that the "mixed" regime accumulated contributions but didn't incur any old-age pension payments to retirees.[4] Exhibit 6 shows more details. We estimate the surplus increased to $1,259bn (1.5% of GDP) in 2024.

Exhibit 5: OVERALL SURPLUS in the mixed pension regime (partly defined-benefit, partly defined-contribution) which was created by the 2005 pension reform

The mixed regime has a surplus because it doesn't have many retirees, as this regime includes people who were 35 years old or younger in in 2006



Note:: 2024 figures are BofA estimates. The 2024 financial statements of the CSS haven't been published yet.

Source: BofA Global Research, Social Security Institute (CSS), Statistics Agency (INEC)

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[3] In contrast, the "pay-as-you-go" is a defined-benefit pension regime that is is unfunded. The contributions of young people are used to pay for the pensions of retirees, without accumulation of assets (savings) over time.

[4] Nevertheless, by 2023 the "mixed" regime did have 2,238 pensioners from disability & death, and 3 from early & proportional retirement.

Exhibit 6: Summary of the Social Security Institute's (CSS) regimes, before reform

The 2025 reform merged the two pension regimes – "pay-as-you-go" and "mixed" – into a new one called the "Single System of Capitalization with Solidarity Guarantee". The origin of the mixed subsystem goes back to the 2005 pension reform

	Health (sickness and maternity)	Pensions (old-age, disability, and death)		Administration	Professional risks
		Pay-as-you-go (purely defined benefit)	Mixed subsystem (partly defined benefit, partly defined contribution)		
Financing	Total contribution rate equal to 8.5%. Employer (firm) contributes amount equivalent to 8% of individual worker's monthly salary, and worker contributes 0.5%.	Total pension contribution rate equal to 15%. Employer (firm) contributes amount equivalent to 4.25% of individual worker's monthly salary, and worker contributes 9.25%. Plus, an extra contribution of 1.5% ("13th month") split between employer and worker (60/40).	Differentiated contribution rates for defined benefit and defined contribution components. Defined benefit applies to first $500 of an individual's monthly salary (13.5% monthly contribution rate on $500, 2.5% monthly solidarity contribution over difference between salary and $500, 1% insurance contribution over difference between salary and $500, and 18% on full salary for the "13th month"). Defined contribution applies to residual salary, exceeding $500, subject to contribution rate of 10% that goes into an individual pension account.	Government contributes amount equivalent to 0.8% of individual worker's monthly salary.	Employer (firm) contributes amount equivalent to 0.42%-7% of individual worker's monthly salary. Contribution rate varies depending on job riskiness.
Number of people in 2023	3,457,187 affiliated; 1,424,903 active contributors	320,710 pensioners (180,835 from old-age, 77,912 from early & proportional retirement, 61,963 from disability and death).	2,241 pensioners (2,238 from disability and death, and 3 from early & proportional retirement). No pensioners from old age yet.	Non applicable	8,066 people receiving professional risk benefits/pensions
Average monthly pension ($)	Non applicable	$537 ($686 for old age)	$117	Non applicable	$175
Net profit in 2023 ($), before extraordinary transfers from government	-$124mn (deficit)	-$674mn (deficit)	$710mn (surplus) in defined benefit component, and $462mn (surplus) in defined contribution component	$130mn (surplus). Law allows Social Security Institute to transfer up to 75% of this amount to cover deficit in other regimes.	$6mn (surplus)
Reserves (or assets under management) by the end of December 2023	$2.045bn	$352mn in reserves. Additionally, there is a trust fund (managed by Banco Nacional), which had $1,086mn by year-end 2023. This trust fund is used to pay for the deficits of the "pay-as-you-go" regime. However, the $1,086mn were already encumbered by the pension deficits of 2021 (-$464mn), 2022 (-$654mn), and 2023 (-$674mn) that hadn't been paid yet.	$8.904bn ($5.716bn from defined benefit component, plus $3.188bn in individual pension accounts).	$727mn	$914mn
Explicit pension debt. Actuarial value of liabilities to pensioners. Estimates from Social Security Institute (CSS)	Non applicable	$25bn (30% of GDP)	$33mn (0.04% of GDP)	Non applicable	$257mn (0.3% of GDP)

Source: BofA Global Research, Social Security Institute (CSS), Ministry of Finance (MEF), Technical Actuarial Board (JTA), Statistics Agency (INEC), Congress

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Pension liabilities: before the reform

30%-of-GDP explicit pension debt; ~49%-of-GDP implicit

The 2023 financial statements of the Social Security institute (CSS) estimate the explicit pension debt at $25bn (30% of GDP).[5] By "explicit" we mean the actuarial value of liabilities to 320,710 pensioners that are already drawing benefits.

[5] See page 121 at https://transparencia.css.gob.pa/wp-content/uploads/2024/09/ESTADOS-FINANCIEROS-2023-2022.pdf.

We estimate the implicit debt – which includes pension liabilities to both present and future pensioners – at $43bn (49% of GDP) until the year 2100, piggybacking on the pension balance projected by the International Labor Organization (ILO) in a study published in 2022.[6] ILO numbers are pre-2025 reform.

The Technical Actuarial Board of Panama (JTA, acronym in Spanish) – an independent institution created by the 2005 pension reform – estimates the implicit pension debt at $75bn (90% of GDP). This debt figure is much higher because we suspect it includes all people affiliated to the CSS (both active and inactive). In contrast, the ILO figures and our analyses that forecast those people that are likely to receive a pension.

Our pension debt calculations – after the 2025 reform – are presented in Exhibit 16. We use ILO projections to estimate the present value of pension liabilities in the pre-reform scenario, focusing on the "pay-as-you-go" and the defined benefit component of the "mixed" regime. We add them up to get a consolidated flow. This is the counterfactual, pre-reform scenario.

The 2025 pension reform

Exhibit 7: Summary of the three measures that, in our view, represent the backbone of the reform
The fiscal savings, the liquidity relief, and the reduction of pension liabilities emanate from these measures

	BEFORE REFORM	AFTER REFORM	FISCAL, LIQUIDITY AND DEBT IMPACTS
Increase in contribution rate	15% contribution rate	18% (16% in 2025, 17% in 2027, and 18% starting from 2029)	**0.38%-of-GDP improvement in fiscal balance** when fully phased in by 2029. Explained by higher contributions from the private sector.
Liquidity relief via the merger of pension regimes	Pension system had two regimes: 1) "Pay-as-you-go" that was closed to new entrants and generated an operational deficit, exhausting its reserves. 2) Newer "mixed" regime with two pillars (defined benefit and defined contribution) that generated an operational surplus and was accumulating reserves. The systems were segregated and the surplus from the "mixed" regime could not be used to cover the deficit in the "pay-as-you-go".	"Pay-as-you-go" and "mixed" regimes are merged into the new "Single System of Capitalization with Solidarity Guarantee". This is conducive to a substantial liquidity relief. The CSS can now draw surplus funds to pay the pensioners of the "pay-you-as-go".	We estimate the **liquidity relief at $16.1bn (13.5% of GDP) over the next 10 years** (difference between projected deficit in the "pay-as-you-go" and the $966mn "system sustainability transfer" that grows 4% per year).
"Notional accounts", a new way to calculate pensions	1) "Pay-as-you-go" guaranteed people a pension equal to 60% of the 10 best average salary years, plus 1.25% for each year over 20 years of contributions. The monthly pension was capped at $2,500. 2) The "mixed" regime offered a similar formula for the first $500 tranche of salaries ($300 monthly pension after 20 years of contributions, plus 1.25% top-ups capped at $500) and uncapped pensions in the defined-contribution (personal savings) component. Neither 1) or 2) ar indexed to inflation.	New entrants will retire under framework of "notional accounts" which means their pensions will be commensurate to their personal savings, uncapped, and indexed to inflation. "Notional accounts" create a ledger of individual contributions (defined contribution, 18% of salary) and calculate pensions based on the implicit accumulation of assets (contributions plus the returns of the system's reserves, the *"Fondo Unico Solidario"*). We say "implicit" because – in practice – all the money is pooled (like in a "pay-as-you-go" regime) and the Social Security Institute can use it at its discretion. This fundamentally changes the way in which pensions are calculated. Previously, the calculation of pensions in the "pay-as-you-go" (and less so in the "mixed" regime) were subject to looser budget constraints.	Defined-contribution portion of the mixed regime, **0.43% of GDP, is now considered revenue**, whereas before the reform it wasn't because the money went into separate, individual, 401k-like accounts. We estimate the "notional accounts" coupled with higher contributions cause **pension debt fall by 10% of GDP** (calculating the present value from the year 2100). See Exhibit 16 for more details on pension debt calculations.

Source: BofA Global Research

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[6] See http s://cdn.corprensa.com/la-prensa/uploads/2022/09/19/Informe%20de%20la%20OIT.pdf. The ILO study makes the projections until 2095. We assume the pension balances in the five missing years (2096-2100) are the same as in 2095 to extend the analysis to 2100. We discount the flows at a 4% interest rate, to make it comparable to the CSS calculation (before reform), and 5% to compare to our post-reform estimate. See Exhibit 16 for more details. ILO projects the pension balance of the "pay-as-you-go" and the defined-benefit component of the "mixed" regime. We add them up. The defined-contribution component is excluded because it's fully funded.

The main economic measures of the reform

I) Unification of two pension regimes into a new framework

The reform merged the two regimes – "pay-as-you-go" and "mixed" – into a new one called the "Single System of Capitalization with Solidarity Guarantee." People affiliated to the old regimes will retain their benefits. The "pay-as-you-go" hasn't admitted new people for the past 20 years, since the previous reform. In 2036 everyone from the "mixed" regime – who hasn't yet retired – will compulsorily migrate to the new system.

II) 3 percentage point increase in contribution rate (to 18%), paid by employers

When the reform was enacted into law on 18 March 2025, the contribution rate rose from 15% to 16%. It will increase again by 1pp in 2027 to 17%, and again in 2029, reaching 18%. The government says contribution revenues should increase by around $500mn as a result ($158mn from the public sector, or 0.18% of GDP, and $342mn from the private sector, or 0.38% of GDP).

The increase in the employer contribution was a concession to the labor unions, as individuals will not see any hike in contributions. At the Non-Financial Public Sector level, the higher contribution rates will improve the fiscal balance by 0.38% of GDP, equivalent to the private sector contributions.

III) A new way to calculate pensions, aka "notional accounts"

New entrants to the pension system, starting from the enactment of the reform, will have their pension benefits calculated in a different way compared to people affiliated to the "pay-as-you-go" and "mixed" regimes (whose benefits were protected by the reform). Thus, younger cohorts will retire under the concept of "notional accounts" which means their pensions will be commensurate to their personal savings, uncapped, and indexed to inflation.

"Notional accounts" link pensions to returns, and liabilities to contributions

"Notional accounts" create a ledger of individual contributions (defined contribution, 18% of salary) and calculate pensions based on the implicit accumulation of assets (contributions plus the returns of the system's reserves, the *"Fondo Unico Solidario"*). We say "implicit" because – in practice – all the money is pooled (like in a "pay-as-you-go" regime) and the Social Security Institute can use it at discretion.

A more fiscally-conservative mechanism to calculate pensions

At retirement, the notional capital in an individual (implicit) account is converted to a life annuity, using an annuity factor that is consistent with life expectancy and the return on the pension system's reserves.[7] This fundamentally changes the way in which pensions are calculated. Previously, the calculation of pensions in the "pay-as-you-go" (and less so in the "mixed" regime) system were subject to looser budget constraints.

Exhibit 8: Annuity factor table dictated by 2025 pension reform (to be revised every 10 years) – an illustrative example for men

We estimate that a man with a monthly salary of $764 (around average salary in Panama) who works for 26 years would get a pension equal to $445 upon retiring at age 62. This is the result of dividing the man's pension savings by 1,000 and multiplying by 5.15 (pension factor)

Age at which pension is requested	Pension factor
35	3.84
36	3.87
37	3.89
38	3.92
39	3.95
40	3.98
41	4.01

[7] See the details on Article 196 of the Pension Reform Law, pages 126 to 134, here http s://www.css.gob.pa/wp-content/uploads/2025/05/TEXTO-UNICO-DE-LA-LEY-51-DE-2005-CSS-GACETA-OFICIAL-22-5-25.pdf.

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Age at which pension is requested	Pension factor
42	4.04
43	4.08
44	4.11
45	4.15
46	4.19
47	4.23
48	4.27
49	4.32
50	4.37
51	4.42
52	4.47
53	4.52
54	4.58
55	4.64
56	4.7
57	4.77
58	4.84
59	4.91
60	4.99
61	5.07
62	5.15
63	5.24
64	5.34
65	5.44
66	5.55
67	5.66
68	5.78
69	5.91
70	6.04
71	6.18
72	6.33
73	6.49
74	6.66
75	6.85
76	7.04
77	7.24
78	7.46
79	7.69
80 and more	7.94

Note: We assume $764 monthly salary, 26 years work life, 2% growth in salaries, 5% returns, 15% contribution rate, and 12 quotas density. We have been referring to an 18% contribution rate in the post-reform context. Nevertheless, the appropriate contribution rate to use for the calculation of the old-age pension is 15% (sometimes the government refers to it as a 13.5% monthly contribution plus 1.5% on the thirteenth salary). The other 3 percentage points of the contribution finance survivorship, disability, and non-contributory pensions.

Source: BofA Global Research, 2025 social security reform law.

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It's a parametric change, no doubt

During the political process of debating the pension reform, the government refrained from using the word "parametric" when referring to "notional accounts" because that is a controversial word in Panama. People associate the word "parametric" to a cost that is borne by them, like an increase in the retirement age. Nevertheless, changing the formulas to calculate pensions is in effect a change in the parameters of the system.

Pension/salary ratios will probably decrease from very high levels

The latest official data show that average old-age pensions for men are $677, or 93% of the average male salary ($727). For women the ratio is 81% ($603 divided by $747). These average salaries include informal workers. A more appropriate comparison would require formal sector salaries (people who contribute to the CSS) which we think are around $1,150.[8] The ratios would still be elevated (59% men, 52% women).

Previous pension formulas were more generous

In February 2025, newspaper La Prensa interviewed the former vice minister of health, Carlos Abadia, who told a revealing personal story. During his 36 years of working life, he said he contributed $202k to the CSS and drew $435k since retiring.[9] The "pay-as-you-go" guaranteed people a pension equal to 60% of the 10 best average salary years (capped at $2,500 with top-ups). The mixed regime, in contrast, offered a similar formula for the first $500 tranche of salaries ($300 monthly pension after 20 years of contributions, plus top-ups) and uncapped pensions in the defined-contribution (personal savings) component.[10]

Panama's "notional accounts" are inspired by the Swedish pension system

The government says the 2025 reform adopted some features of Sweden's pension system where "notional accounts" also play a vital role. However, we note at least two differences with respect to the Swedish system's accounts.

i) In Sweden the returns that are credited to contributions are not equal to return on reserves, but rather linked to a non-financial variable (growth of per capita wages).

ii) Sweden has a self-correcting mechanism to adjust the rate of return. Every year the country calculates the present value of liabilities and assets. If liabilities exceed assets, the rate of return on contributions will be adjusted downward. And vice versa. This ensures that the system is kept in financial balance. Panama's reform omitted this mechanism.

IV) Indexation to inflation is a new feature

Neither the "pay-as-you-go" nor the "mixed" regime pensions are indexed to inflation, which makes pensioners lose purchasing power over time. In the "pay-as-you-go" there is one exception: people with pensions below $800 receive a $10 increase every five years. In the new/merged regime, the "Single System of Capitalization with Solidarity Guarantee," pensions will be adjusted by CPI inflation every June 1st. The inflation adjustment is capped at 3%.

V) Guarantee of 60% minimum replacement rate, but with strict conditions

During the legislative process, legislators expressed concerns that "notional accounts" would cut the size of pensions, so they proposed a minimum replacement rate (ratio of pensions to average individual salary). The government pushed back because this watered down the impact of the reform.

Final outcome of debate on minimum replacement rate was a compromise

In the end, the compromise entailed setting a 60% replacement rate for the salary of the entire work life (not the 10 best years like in the "pay-as-you-go" and the defined benefit component of the "mixed" regime) and subject to relatively strict contribution density conditions.

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[8] Based on data provided by the Social Security Institute (CSS) to the International Labor Organization (ILO). See pages 74 and 93 here https://cdn.corprensa.com/la-prensa/uploads/2022/09/19/Informe%20de%20la%20OIT.pdf.

[9] See https://www.prensa.com/politica/abadia-sobre-el-futuro-de-la-css-la-relacion-cotizantes-pensionados-es-insostenible/.

[10] When a person reached retirement age (57 women, 62 men) and made contributions for 240 months (20 years), the first $500 tranche of the salary provided a pension equal to 60% of the average ten best/highest salary years. This was $300, assuming the average was $500. The monthly pension could increase to $500 (cap) if the person made contributions for more than 20 years. A 1.25% increase in the replacement rate (above 60%) for each additional year of work/contributions.

Density conditions prevent the reform from being watered down too much

There are several contribution density conditions workers must meet to become eligible for the 60% minimum replacement rate including: i) five minimum monthly contributions per year during work life; ii) a six-year limit for lack of contributions (without exceeding five consecutive years); iii) even distribution of 240 contributions (at least 50% must be in first 20 years); and iv) salary stability (no spikes in final years).

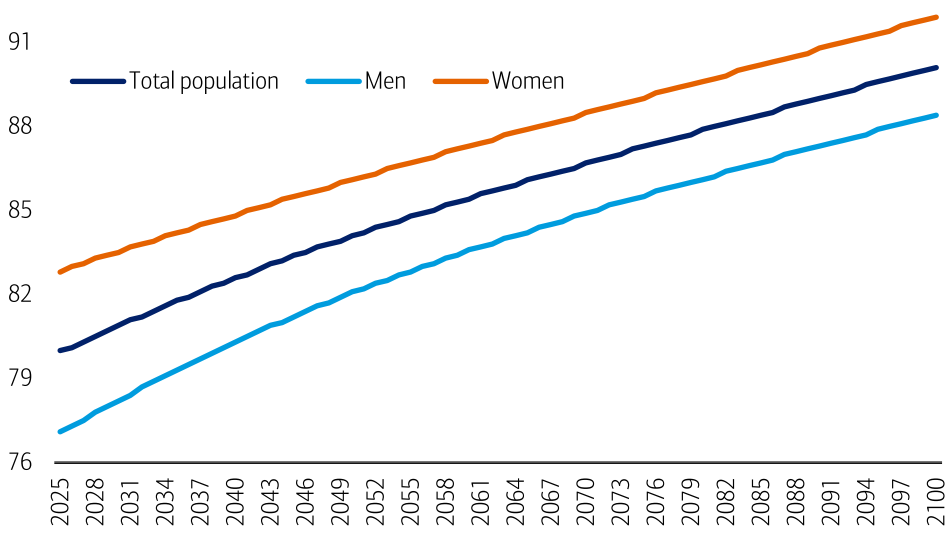
"Pay-as-you-go" and "mixed" regimes didn't have density conditions

It is likely that many people will not meet the density requirements of the "notional accounts'" 60% minimum replacement rate, making them ineligible. In stark contrast with the "pay-as-you-go" and "mixed" regimes where there were no density requirements. In those regimes, that are being phased out, a person could start making contributions at age 42 and, at 62, they would receive a pension equivalent to 60% of the best/highest 10 years average salary.

Under reasonable assumptions, 60% achievable for those who work more years

Nevertheless, according to our calculations (assuming 2% nominal growth of salaries, 15% contribution rate[11], 12 contributions per year, 5% return on reserves, pensions indexed to 1.5% inflation) a pension consistent with a 60% replacement rate and the current retirement age for men (77 years) would be achieved after working 26 years (Exhibits 22 and 23). To receive a 60% replacement rate pension until age 88 (expected life expectancy by the year 2100) men would need to work 32 years. Or less than that if their wages grow faster than 2%, and/or the return on investments is higher than 5%. Women would need to work more years to get a 60% replacement rate because their life expectancy is higher.

Exhibit 9: Panama's life expectancy projections, from the UN/ECLAC population division (in years)
UN/ECLAC/CELADE expects Panama's life expectancy (for the entire population) to increase by 10 years (to 90) between now and the year 2100



Source: CELADE - Population Division of ECLAC and United Nations, Department of Economic and Social Affairs.
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[11] We have been referring to an 18% contribution rate in the post-reform context. Nevertheless, the appropriate contribution rate to use for the calculation of the old-age pension is 15% (sometimes the government refers to it as a 13.5% monthly contribution plus 1.5% on the thirteenth salary). The other 3 percentage points of the contribution finance survivorship, disability, and non-contributory pensions.

VI) No increase in retirement age, a victory for the labor unions

The government's proposed increasing the retirement age by 3 years, to 65 for men and 60 for women. However, this was a red line for the labor unions and lawmakers decided to keep the retirement ages unchanged (62 men, 57 women).

Thus, two parametric changes were approved (higher contributions and "notional accounts") and one was rejected (retirement change). Nevertheless, the notional account system creates a natural incentive for affiliates to defer retirement, since their pension benefits will depend on the sum of contributions during their working lives. Thus, to receive a larger pension, affiliates need to work longer and contribute more.

Leaving the door open for an increase in retirement age

The reform law leaves the door open for revisiting this decision in six years. Any change will be based on the actuarial calculations of an independent auditor, with representation of the interests of the government, labor unions, and private firms.

VII) Merger increases reserves, providing liquidity relief and flexibility

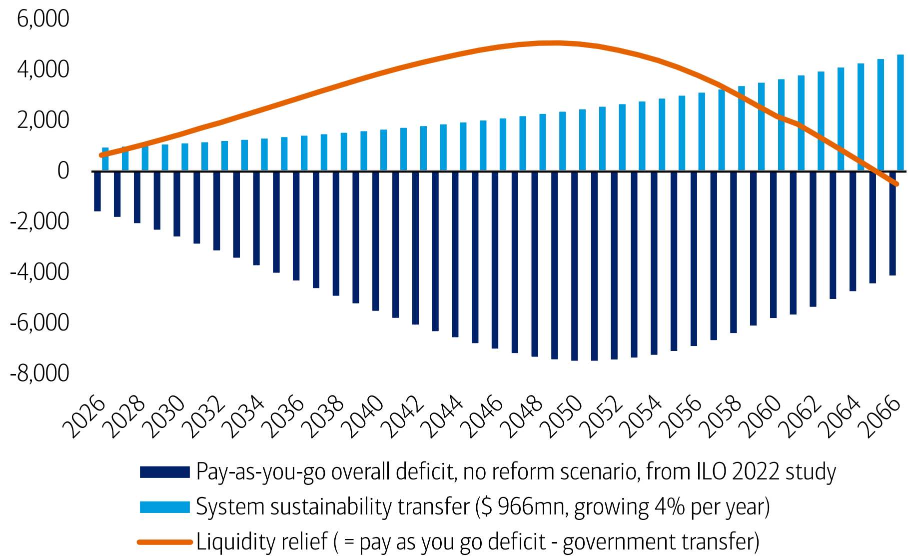
We estimate the reserves of the merged pension system will be around $10.1bn by year-end 2025. Before the reform, the Social Security Institute (CSS) was legally forbidden from using the ample reserves in the mixed regime to pay for the ballooning deficit in the "pay-as-you-go" (whose reserves were virtually depleted). The 2025 reform eliminated that restriction.

VIII) The $966mn "system sustainability transfer" to build reserves

The government is required to make an annual transfer of $966mn (1.1% of GDP) to the CSS. Its purpose is to build reserves, not to pay for pensions (given the consolidated system has a surplus). The law says it cannot grow more than to 4% per year. Notably, as shown in Exhibit 10, this transfer is smaller than the projected deficit of the "pay-as-you-go" in the no reform scenario which implies a liquidity relief in the short and medium-terms. We estimate the liquid relief at $16.1bn (13.5% of GDP) over the next ten years. The liquidity relief turns negative starting from 2065 as the deficit in the pay-as-you-go shrinks (in lockstep with fewer pensioners).

Exhibit 10: Liquidity relief for the government created by the 2025 pension reform

Before the reform, the government was on the hook for covering the deficit in the "pay-as-you-go", considering the surplus in the "mixed" regime was untouchable



Source: BofA Global Research, Social Security Institute (CSS), International Labor Organization ILO)

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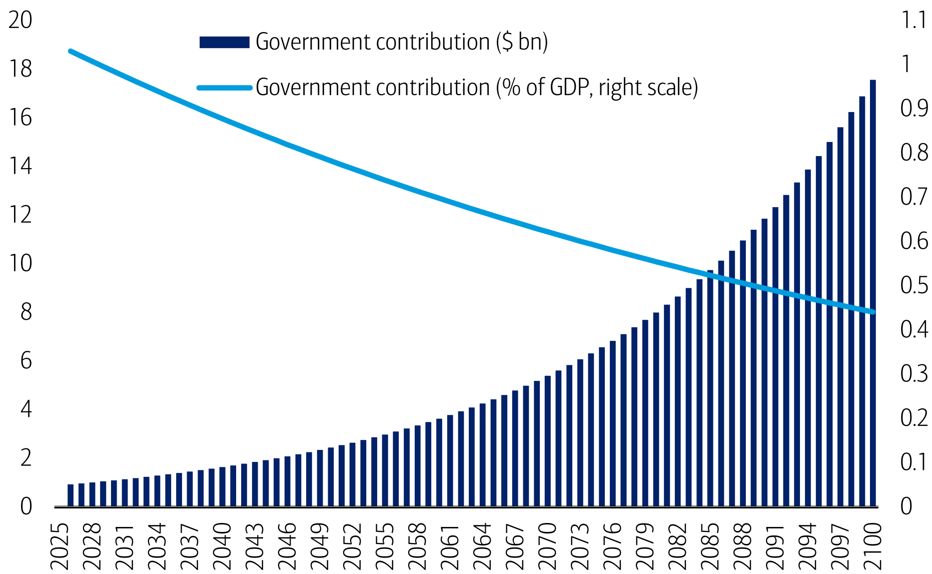
Exhibit 11: $966mn annual "system sustainability transfer"

The transfer will likely shrink as a fraction of GDP over time, as the denominator (nominal GDP) grows faster



Note: We assume nominal GDP growth of 5.2% in the long-term (3.7% real + 1.5% deflator).
Source: BofA Global Research, Pension reform law, Statistics Agency (INEC)

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IX) Increase of non-contributory pensions, although in a small amount

The reform increased non-contributory pensions to $144 per month at age 65, from $120, and indexed them to inflation. The government estimates the cost of this measure is $60mn (0.07% of GDP) in the first year. This covers people that do not make contributions to the CSS, such as informal workers, stay-at-home spouses, and elders in poverty.

X) Transfer of investment management can increase returns on reserves

The reform allows the CSS to transfer the management of its investment portfolio to two state-owned banks (Banco Nacional and Caja de Ahorros), up to 90%, and private fund managers, up to 10% (down from 100% in the initial proposal). This also opens the possibility of having foreign investments to seek higher returns.

Labor unions pushed against privatizing the management of investments. But they didn't seem to have a problem with the state-owned banks. Banco Nacional and Caja de Ahorros have a strong reputation for professional management. Nevertheless, having two state-banks managing pensions could create principal-agency issues.

XI) Limit to invest in government securities increased to 75% (from 50%)

Before the reform, the limit to invest in public sector securities (including Panamanian Treasury bonds) was 50%. After the reform, this limit was increased to 75%, although it now includes deposits in government-owned banks and investments in national/infrastructure projects. We believe the regulatory change will give the government more flexibility to finance the $966mn "system sustainability transfer".

Triangulating the money is an option to prevent an increase in public debt ratio

We estimate annual contributions to be around $2.4bn in 2025. 75% of that could be invested in government bonds. Thus, the government could potentially finance the $966mn transfer by having the CSS invest in government securities. In that case, the consolidated NFPS debt ratio would not increase because intra-public sector debt is consolidated.

Making the room by disinvesting from government-owned bank deposits

As shown in Exhibit 12, the pension system would probably need to disinvest government-owned bank deposits to stay below the 75% regulatory limit. We are not predicting that this will happen, but it is an option. Perhaps the government will find a different way to finance the $966mn transfer, like larger contributions from the Panama Canal, the mine, tax enforcement, or another.

Exhibit 12: Breakdown of how consolidated reserves of pension system (including "pay-as-you-go" and "mixed regimes") were invested by year-end 2023

This is the latest data available, from the published financial statement

	Total ($mn)	% of total
I) Current & fixed term deposits	4,737	51.0
i) Government-owned banks	3,759	40.5
ii) Private banks	978	10.5
II) Investments in securities	4,010	43.2
iii) Public sector securities	3,548	38.2
iv) Private securities	463	5.0
III) Accounts receivable	476	5.1
IV) Other assets	66	0.7
***Public sector deposits and investments (= i + iii)**	***7,307***	***78.7***
Total assets (= I + II + III + IV)	9,289	100.0

Source: Social Security Institute (CSS), BofA Global Research

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Forecasting pension balances and debt

We estimate 0.37%-of-GDP pension surplus for 2025

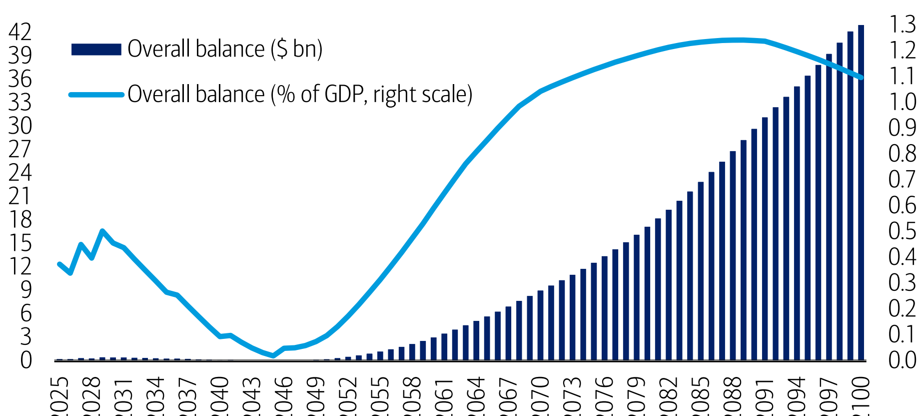
We define the pension balance as revenues (contributions and interest on reserves) minus expenditures (pension payments and other expenditures). By that metric, we estimate the balance of the merged system will be around $335mn (0.37% of GDP) in 2025. We forecast the surplus will peak at 0.5% of GDP in 2029, and then gradually fall – driven by rising pension expenditures (aging and acquired rights) – until 2045 (0.02% of GDP). From 2046 onwards there should be a growing surplus (Exhibit 13).

New system will help to stabilize pension expenditures

The rising expenditures are pressured by the fact that the pension reform ensured acquired rights (people from "pay-as-you-go" and "mixed" regimes will retain their benefits). Once the (younger) cohorts from the new pension system start retiring (women will begin early retirement at age 55 in 2062) the growth of expenditures will slow down. Moreover, people from the mixed regime (that haven't retired) will mandatorily move to the new system in 2036. This will help to increase the surplus.

Exhibit 13: BofA forecasts for the new pension system

Overall balance does not include $966mn transfer from government (aka "system sustainability transfer")



Note: We use UN/ECLAC/CELADE population projections for Panama. We assume 2% wages growth, 1.5% inflation, 3.7% GDP growth, gradual increase from 4% to 5% in return on reserves (and decrease in final decades), among other parameters.

Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC), CELADE - Population Division of UN/ECLAC.

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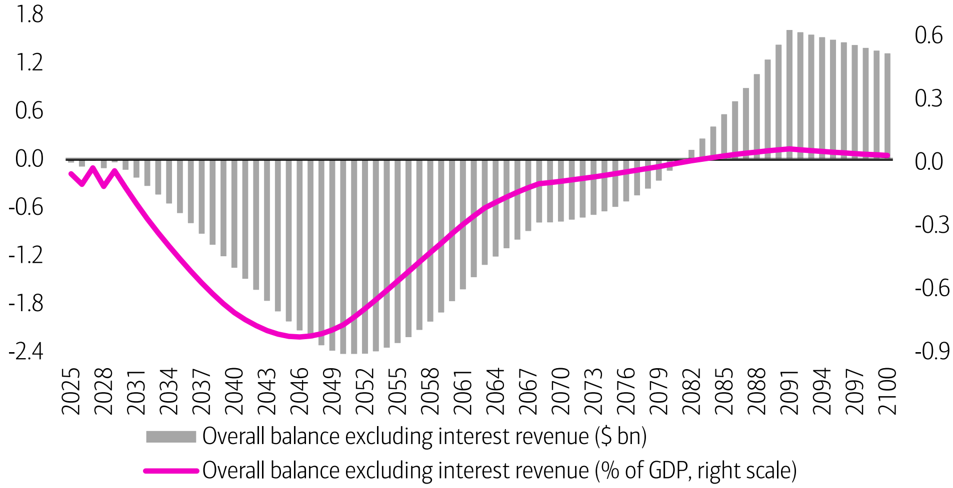
Exhibit 14: New pension system's overall balance excluding interest revenues

We project the deficit will widen to around -0.8% of GDP between 2041 and 2050 – as the pensions of those in the old regimes are paid – and then gradually narrow to zero by 2074



Note: We use UN/ECLAC/CELADE population projections for Panama. We assume 2% wages growth, 1.5% inflation, 3.7% GDP growth, gradual increase from 4% to 5% in return on reserves (and decrease in final decades), among other parameters.
Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC), CELADE - Population Division of UN/ECLAC

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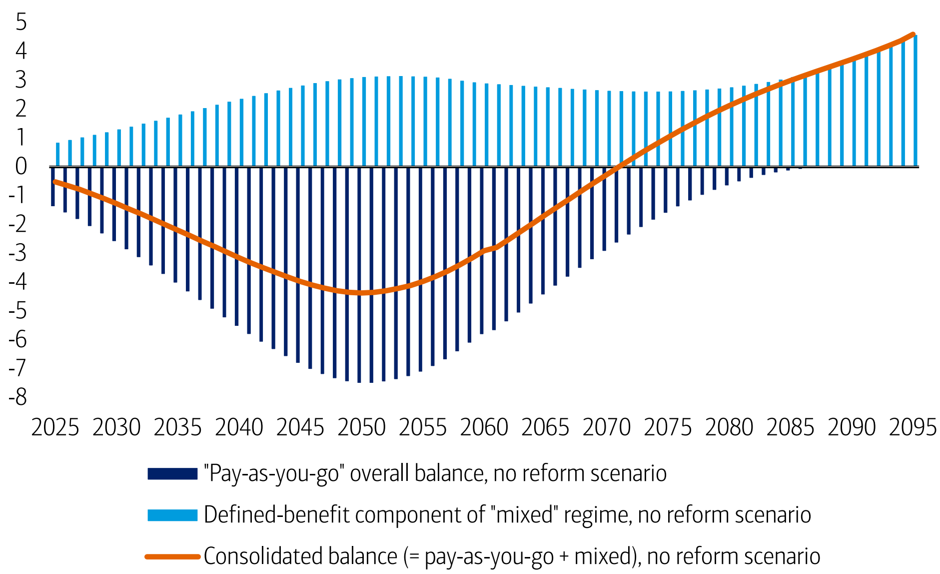
Exhibit 15: Counterfactual – Overall balance of pension system in the scenario of no reform ($bn)

Data comes from projections of International Labor Organization (ILO) 2022 study



Note: The defined contribution component of the "mixed" regime is excluded because it's fully funded.
Source: *"Valuación actuarial del sistema panameño de pensiones"*, International Labor Organization (ILO), 2022.

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Exhibit 16: Estimation of present value of pension liabilities, before and after 2025 reform

We estimate the pension reform – even without the $966mn "system sustainability transfer" – reduces pension liabilities by around 10% of GDP. This is the difference between the BofA estimate post-reform (32% of GDP) and pre-reform (42% of GDP) piggybacking on the ILO projections to have a counterfactual

	Measure of pension debt	% of GDP	Source	Comments
Before the 2025 reform	Present value of explicit pension debt (before the 2025 reform)	30% of GDP	Social Security Institute (CSS)	This information was published in the latest financial statements (2023). "Explicit" means the actuarial value of CSS liabilities to the 320,710 existing pensioners. Present value discounted at 4.17% interest rate.
	Present value of implicit pension debt	49% of GDP (using 4% discount rate); 42% of GDP (using 5% discount rate)	BofA calculations, using flows of pension balance projected by International Labor Organization (ILO)	We estimate the implicit debt – which includes pension liabilities to both present and future pensioners – at $43bn (49% of GDP) until the year 2100, piggybacking on the pension balance projected by the International Labor Organization (ILO) in a study published in 2022. ILO numbers are pre-2025 reform. Present value discounted at 4% and 5% interest rate.
	Present value of implicit pension debt	90% of GDP	Technical Actuarial Board (JTA, acronym in Spanish)	JTA is an independent institution created by the 2005 pension reform. It estimates the implicit pension debt at $75bn (90% of GDP). This debt figure is much higher. We suspect it includes all people affiliated to the CSS (both active and inactive). In contrast with ILO and our analyses that forecast the people that are likely to receive a pension. Unknown discount rate.
After the 2025 reform	Present value of implicit pension debt, assuming "system sustainability transfer" is zero	32% of GDP	BofA	We use 2100 as cutoff year. By then the bulk of people currently affiliated to the CSS will have an age significantly above life expectancy. An 18-year-old in 2025 will be 93 in 2100. Present value discounted at 5% interest rate.
	Present value of implicit pension debt, including "system sustainability transfer"	-56% of GDP. Net creditor position	BofA	Present value of net debt turns negative because pension system generates surpluses. This is the present value of the flows shown in Exhibit 13. We assume the "system sustainability transfer" starts in 2026 ($966mn) and grows 4% every year. Present value discounted at 5% interest rate.

Note: See ILO study at https://cdn.corprensa.com/la-prensa/uploads/2022/09/19/Informe%20de%20la%20OIT.pdf.ILO study makes the projections until 2095. We assume the pension balances in the five missing years (2096-2100) are the same as in 2095 to extend the analysis to 2100. ILO projects the pension balance of the "pay-as-you-go" and the defined-benefit component of the "mixed" regime. We add them up. The defined-contribution component of the mixed regime is excluded because it's fully funded.

Source: BofA Global Research, Social Security Institute (CSS), Technical Actuarial Board (JTA)

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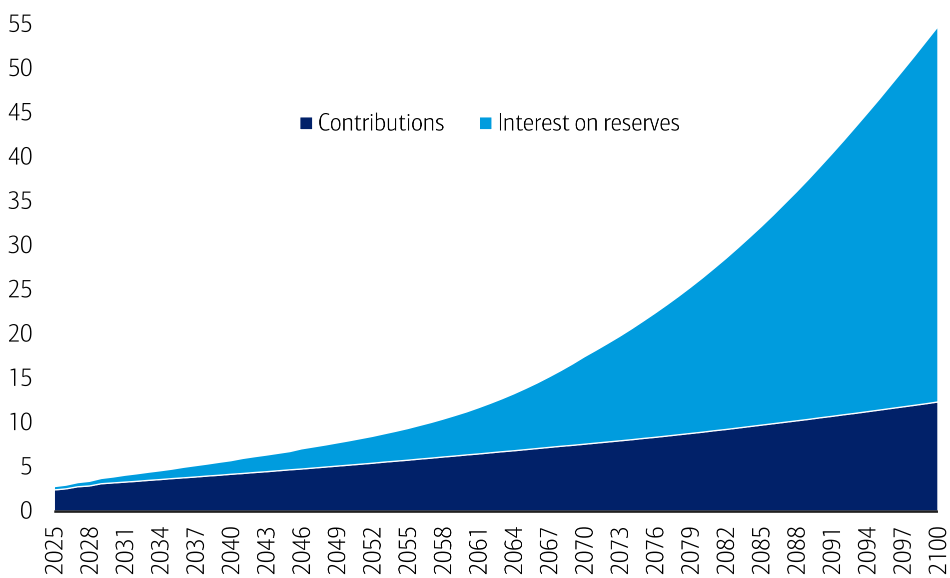
Exhibit 17: BofA forecasts of pension system revenues ($bn)

Higher contribution rate (+3pp) and $966mn annual transfer from the government (to build reserves), which we do not count as a revenue, are the main drivers



Note: We use UN/ECLAC/CELADE population projections for Panama. We assume 2% wages growth, 1.5% inflation, 3.7% GDP growth, gradual increase from 4% to 5% in return on reserves (and decrease in final decades), among other parameters.

Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC), CELADE - Population Division of ECLAC and United Nations.

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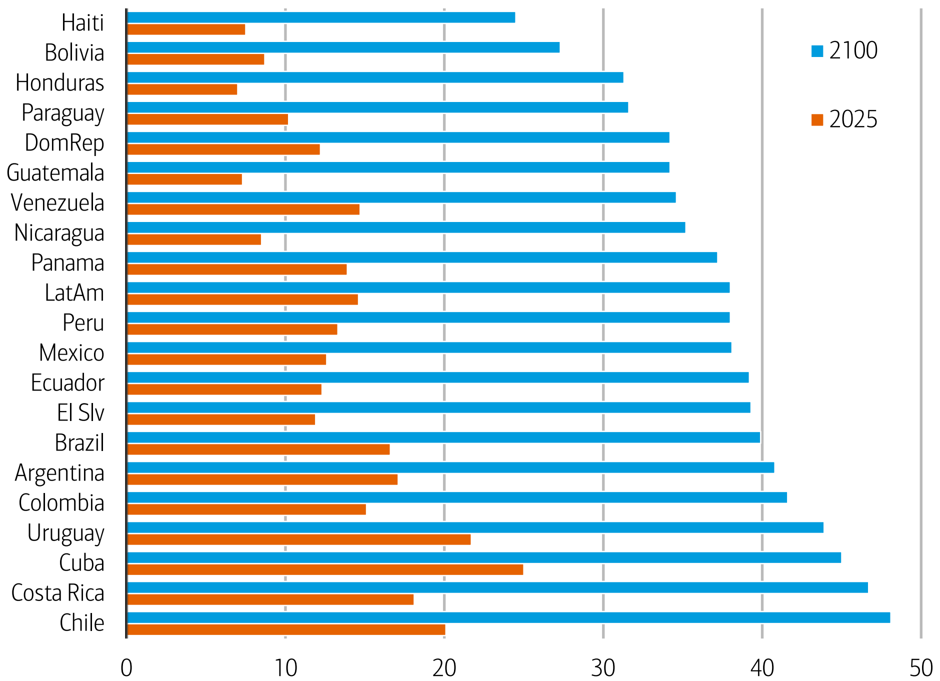
Exhibit 18: Percentage of population that is above 60 years old in Panama and other LatAm countries
Panama's population is not old compared to the LatAm average, but it will age fast in the coming decades which will put pressure on pension expenditures



Source: CELADE - Population Division of ECLAC and United Nations, Department of Economic and Social Affairs.
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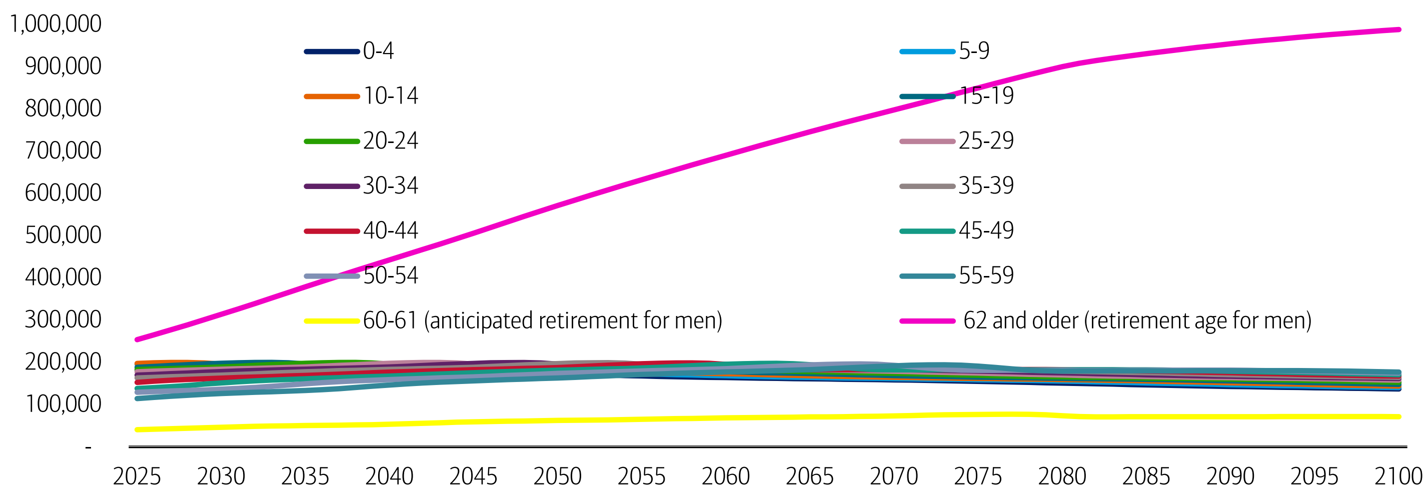
Exhibit 19: We use Panama's MALE population projections from ECLAC/CELADE (the United Nations' economic arm for Latam)
We piggyback on the population projections carried out by the United Nation's ECLAC-CELADE division, updated in 2024



Source: CELADE - Population Division of ECLAC and United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects, 2024, online edition.
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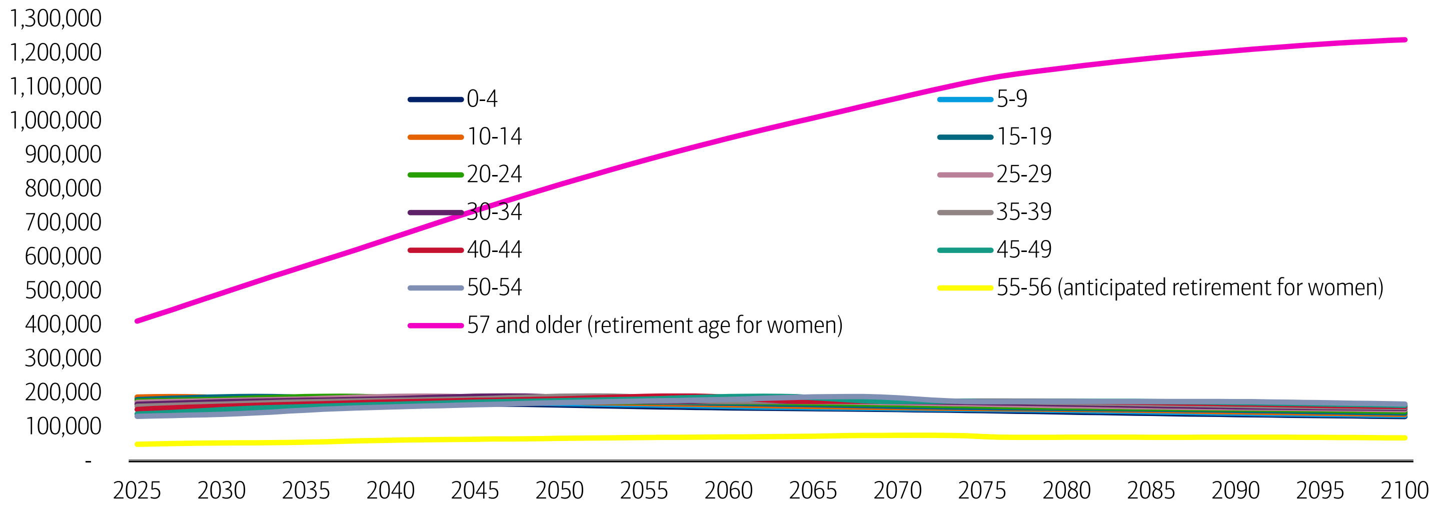
Exhibit 20: We use Panama's FEMALE population projections from ECLAC/CELADE (the United Nations' economic arm for Latam)
The retirement age for women is five years earlier than for men



Source: CELADE - Population Division of ECLAC and United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects, 2024, online edition.

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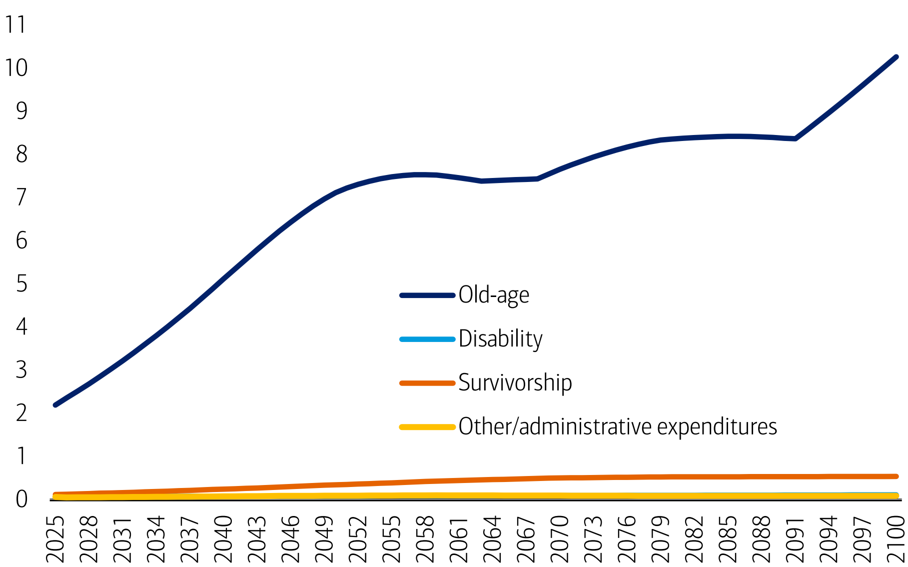
Exhibit 21: BofA forecasts of pension system expenditures ($bn)
The main drivers of the increase are population aging and the fact that people from the "pay-as-you-go" and (to lesser extent) the "mixed" regimes retained their benefits



Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC), CELADE - Population Division of ECLAC/UN

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Exhibit 22: Accumulation phase for men

We assume $764 monthly salary, 2% growth in salaries, 5% returns, 15% contribution rate, and 12 quotas density

Year	Age	salary	contribution	start	earn	end
1	25	9,168	1,375	-	-	1,375
2	26	9,352	1,403	1,375	69	2,847
3	27	9,540	1,431	2,847	142	4,420
4	28	9,731	1,460	4,420	221	6,101
5	29	9,927	1,489	6,101	305	7,895
6	30	10,126	1,519	7,895	395	9,808
7	31	10,329	1,549	9,808	490	11,848
8	32	10,537	1,580	11,848	592	14,021
9	33	10,748	1,612	14,021	701	16,334
10	34	10,964	1,645	16,334	817	18,796
11	35	11,184	1,678	18,796	940	21,413
12	36	11,408	1,711	21,413	1,071	24,195
13	37	11,638	1,746	24,195	1,210	27,150
14	38	11,871	1,781	27,150	1,358	30,289
15	39	12,109	1,816	30,289	1,514	33,619
16	40	12,353	1,853	33,619	1,681	37,153
17	41	12,601	1,890	37,153	1,858	40,901
18	42	12,853	1,928	40,901	2,045	44,874
19	43	13,112	1,967	44,874	2,244	49,085
20	44	13,375	2,006	49,085	2,454	53,545
21	45	13,643	2,046	53,545	2,677	58,269
22	46	13,917	2,088	58,269	2,913	63,270
23	47	14,196	2,129	63,270	3,163	68,563
24	48	14,481	2,172	68,563	3,428	74,163
25	49	14,772	2,216	74,163	3,708	80,087
26	50	15,069	2,260	80,087	4,004	86,352
27	51	15,371	2,306	86,352	4,318	92,975
28	52	15,680	2,352	92,975	4,649	99,976
29	53	15,995	2,399	99,976	4,999	107,374
30	54	16,316	2,447	107,374	5,369	115,190
31	55	16,643	2,496	115,190	5,759	123,446
32	56	16,977	2,547	123,446	6,172	132,164
33	57	17,318	2,598	132,164	6,608	141,370
34	58	17,666	2,650	141,370	7,069	151,089
35	59	18,020	2,703	151,089	7,554	161,346
36	60	18,382	2,757	161,346	8,067	172,171
37	61	18,751	2,813	172,171	8,609	183,592
38	62	19,128	2,869	183,592	9,180	195,641

Note: We have been referring to an 18% contribution rate in the post-reform context. Nevertheless, the appropriate contribution rate to use for the calculation of the old-age pension is 15% (sometimes the government refers to it as a 13.5% monthly contribution plus 1.5% on the thirteenth salary). The other 3 percentage points of the contribution finance survivorship, disability, and non-contributory pensions.

Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC).

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Exhibit 23: Decumulation phase for men

Retirement age is 62. Working for 26 years would give men a pension consistent with a 60% replacement to live until age 77 (current life expectancy for men). We assume pensions are indexed to 1.5% inflation

Year	Age	start	pay	earn	end
1	62	86,352	7,131	4,318	83,538
2	63	83,538	7,238	4,177	80,477
3	64	80,477	7,346	4,024	77,155
4	65	77,155	7,457	3,858	73,556
5	66	73,556	7,568	3,678	69,665
6	67	69,665	7,682	3,483	65,467
7	68	65,467	7,797	3,273	60,943
8	69	60,943	7,914	3,047	56,076
9	70	56,076	8,033	2,804	50,847
10	71	50,847	8,153	2,542	45,236
11	72	45,236	8,276	2,262	39,222
12	73	39,222	8,400	1,961	32,783
13	74	32,783	8,526	1,639	25,897
14	75	25,897	8,654	1,295	18,538
15	76	18,538	8,783	927	10,681
16	77	10,681	8,915	534	2,300
17	78	2,300	9,049	115	(6,634)
18	79	(6,634)	9,185	(332)	(16,150)
19	80	(16,150)	9,322	(808)	(26,280)
20	81	(26,280)	9,462	(1,314)	(37,057)
21	82	(37,057)	9,604	(1,853)	(48,514)
22	83	(48,514)	9,748	(2,426)	(60,688)
23	84	(60,688)	9,895	(3,034)	(73,616)
24	85	(73,616)	10,043	(3,681)	(87,340)
25	86	(87,340)	10,194	(4,367)	(101,901)
26	87	(101,901)	10,346	(5,095)	(117,342)
27	88	(117,342)	10,502	(5,867)	(133,711)
28	89	(133,711)	10,659	(6,686)	(151,056)
29	90	(151,056)	10,819	(7,553)	(169,428)
30	91	(169,428)	10,981	(8,471)	(188,881)
31	92	(188,881)	11,146	(9,444)	(209,471)
32	93	(209,471)	11,313	(10,474)	(231,258)
33	94	(231,258)	11,483	(11,563)	(254,303)
34	95	(254,303)	11,655	(12,715)	(278,674)
35	96	(278,674)	11,830	(13,934)	(304,438)
36	97	(304,438)	12,008	(15,222)	(331,667)
37	98	(331,667)	12,188	(16,583)	(360,438)
38	99	(360,438)	12,370	(18,022)	(390,830)
39	100	(390,830)	12,556	(19,542)	(422,928)

Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC).

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EXD Strategy

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Remain Overweight on Panama's external bonds

We maintain our Overweight (OW) recommendation on Panama's external bonds (EXD). We see Panama's risk premium (discount to its ratings) of about 80bp (equivalent to about 2.0 notches) as attractive. There are four reasons we are bullish:

- **Lower risk of near-term downgrades**: Potential for Panama's risk premium to compress if the market reduces the probability of a second downgrade to high-yield or if the market pushes out the timing the downgrade into 2026.
- **Pension reform:** Investors have largely dismissed the positive impacts of the recently approved pension reform. As the effects become better understood, we believe that this could be reflected in tighter spreads.
- **Mining:** We expect dialogue on reopening Minera Panama to progress in 2025, reducing tail risks from potential arbitrations.
- **Positioning:** We think positioning in Panama is relatively clean.

BofA's base case is that Moody's will not downgrade in 2025

Our base case is that Moody's will maintain its current Baa3 rating and negative outlook at the November 2025 review and wait to see how Panama's fiscal deficit evolves in 2026. The most important driver of Moody's decision is likely to be fiscal consolidation, in our view, rather than growth for example.

We forecast a fiscal deficit of 4.5% of GDP in 2025 and we think this should be sufficient for Moody's to defer action and wait to observe the government's progress in 2026. The risk to our baseline is that the deficit ends up much wider that we forecast.

Panama trading 2 notches (80bp) cheap to its ratings

Panama currently trades at BB valuations, or a 2.0 notch discount to its BBB- average rating (Baa3/BBB-/BB+), which is equivalent to about an 80bp discount in the 10y bond. We think this risk premium reflects a large probability of a second high-yield downgrade from Moody's. A second high-yield rating could trigger forced selling from investors restricted to investment grade issuers, but we think the amounts could be digestible (we estimate forced selling could total $1-$1.5bn, see report, which would be less than a typical Eurobond placement).

Risks: Issuance, social protests

On the downside, we see risk of higher-than-expected Eurobond issuance (our base case is $3bn). However, we see that prospect as more likely in a scenario where spreads are tighter than current levels because the government seems resistant to locking in wider spreads with long-term financing. If spreads remain elevated, we think the government would prioritize short-term financing.

However, reliance on short-term financing creates an expectation of future Eurobond supply, as investors anticipate that such financing will be rolled over with Eurobonds in the future. This creates an overhang of expected issuance that could dampen the effect of positive news.

Finally, ongoing social protests could erode the government's political capital (though current protests seem to be less extensive than the 2022 and 2023 protests). As a result, it could be harder for the government to "win hearts and minds" about the reopening of Minera Panama.

Exhibit 24: Implied vs actual rating for 10Y Panama
Panama trades at BB valuations, a 1.8 notch discount to its BBB- average rating (12m range: 1.6 to 2.9)

Source: Bloomberg, BofA Global Research

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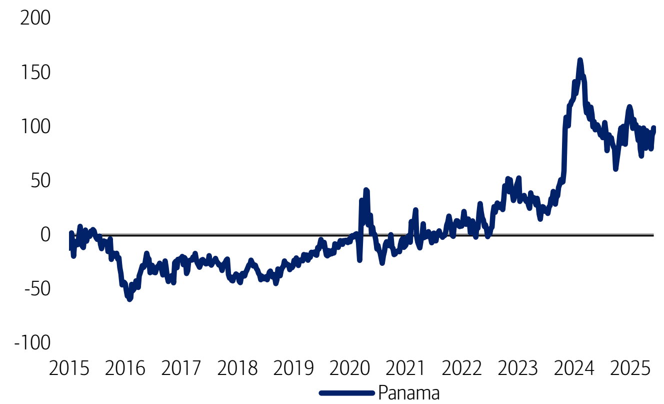
Exhibit 25: Credit risk premia for 10Y Panama
Panama credit risk premium trades at about 80bps (12m range: 60bp to 120bp)



Source: Bloomberg, BofA Global Research

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Appendix

Exhibit 26: Projection of Panama's TOTAL population (number of people by age group)
We use the population projections from the United Nation's ECLAC-CELADE division, updated in 2024

		Ages													
Year	**Total population**	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 and older
2023	4,458,754	359,781	387,897	379,324	363,778	354,332	343,742	331,457	317,724	292,167	270,939	252,515	221,261	180,020	403,817
2024	4,515,576	355,849	385,603	382,698	366,436	357,013	347,164	334,313	320,939	298,230	273,483	256,825	226,977	187,700	422,346
2025	4,571,186	354,780	380,550	385,807	369,085	359,467	350,249	336,958	324,055	304,032	276,542	260,478	232,576	195,168	441,439
2026	4,625,714	355,076	373,881	387,986	372,655	361,526	352,980	339,801	326,957	309,275	280,334	263,400	238,038	202,250	461,555
2027	4,679,243	355,477	367,167	389,029	376,668	363,627	355,365	342,945	329,625	313,737	284,996	265,826	243,233	208,872	482,676
2028	4,731,822	355,714	361,220	388,978	380,317	366,029	357,477	346,112	332,330	317,310	290,534	268,090	248,016	214,967	504,728
2029	4,783,372	355,641	357,325	386,720	383,627	368,328	359,694	349,180	334,955	320,358	296,478	270,588	252,288	220,635	527,555
2030	4,833,869	355,304	356,114	381,571	386,629	370,765	361,845	352,000	337,433	323,370	302,191	273,613	255,908	226,140	550,986
2031	4,883,388	354,995	356,281	374,817	388,707	374,133	363,637	354,493	340,126	326,186	307,362	277,369	258,818	231,523	574,941
2032	4,932,079	354,812	356,563	368,026	389,662	377,960	365,487	356,661	343,127	328,775	311,763	281,986	261,246	236,651	599,360
2033	4,979,802	354,696	356,680	361,998	389,522	381,425	367,634	358,555	346,154	331,397	315,287	287,469	263,518	241,386	624,081
2034	5,026,498	354,619	356,490	358,022	387,178	384,551	369,683	360,553	349,087	333,947	318,292	293,356	266,019	245,626	649,075
2035	5,072,258	354,634	356,042	356,738	381,956	387,388	371,891	362,515	351,779	336,356	321,268	299,019	269,045	249,236	674,391
2036	5,117,121	354,654	355,638	356,837	375,149	389,327	375,055	364,129	354,161	338,987	324,054	304,153	272,791	252,160	700,026
2037	5,161,082	354,575	355,370	357,055	368,311	390,160	378,700	365,825	356,234	341,932	326,620	308,530	277,391	254,618	725,761
2038	5,204,057	354,360	355,183	357,122	362,249	389,933	382,020	367,849	358,053	344,916	329,231	312,046	282,848	256,932	751,315
2039	5,245,902	353,949	355,051	356,891	358,246	387,524	385,033	369,802	360,001	347,818	331,774	315,057	288,704	259,474	776,578
2040	5,286,589	353,251	355,027	356,415	356,937	382,264	387,782	371,939	361,920	350,495	334,186	318,045	294,344	262,532	801,452
2041	5,326,184	352,238	355,024	355,993	357,028	375,451	389,675	375,054	363,514	352,872	336,827	320,851	299,465	266,300	825,892
2042	5,364,667	350,889	354,937	355,715	357,245	368,638	390,504	378,679	365,210	354,951	339,786	323,444	303,850	270,902	849,917
2043	5,402,030	349,289	354,726	355,527	357,329	362,625	390,303	382,007	367,250	356,793	342,789	326,086	307,392	276,344	873,570
2044	5,438,257	347,569	354,344	355,412	357,122	358,678	387,961	385,059	369,237	358,772	345,722	328,667	310,446	282,182	897,086
2045	5,473,278	345,793	353,676	355,402	356,671	357,417	382,782	387,859	371,413	360,729	348,431	331,120	313,477	287,812	920,696
2046	5,507,132	344,028	352,690	355,412	356,264	357,544	376,047	389,800	374,564	362,361	350,843	333,800	316,328	292,933	944,518
2047	5,539,872	342,292	351,370	355,339	356,009	357,806	369,314	390,681	378,222	364,091	352,961	336,793	318,970	297,336	968,688
2048	5,571,393	340,568	349,792	355,144	355,845	357,927	363,373	390,530	381,579	366,161	354,838	339,829	321,657	300,917	993,233
2049	5,601,662	338,866	348,089	354,764	355,739	357,747	359,476	388,233	384,655	368,179	356,850	342,791	324,283	304,017	1,017,973
2050	5,630,680	337,161	346,332	354,108	355,742	357,320	358,254	383,112	387,478	370,383	358,837	345,533	326,781	307,098	1,042,541
2051	5,658,482	335,367	344,590	353,135	355,772	356,953	358,426	376,450	389,453	373,560	360,505	347,981	329,506	310,005	1,066,779
2052	5,684,968	333,481	342,870	351,822	355,715	356,725	358,725	369,776	390,366	377,235	362,269	350,136	332,536	312,704	1,090,608
2053	5,710,198	331,559	341,161	350,252	355,530	356,584	358,879	363,886	390,249	380,610	364,368	352,049	335,609	315,446	1,114,016
2054	5,734,222	329,612	339,476	348,559	355,169	356,509	358,739	360,039	387,995	383,707	366,418	354,097	338,610	318,130	1,137,162
2055	5,757,098	327,712	337,793	346,817	354,526	356,544	358,354	358,867	382,929	386,559	368,652	356,126	341,390	320,692	1,160,137

Exhibit 26: Projection of Panama's TOTAL population (number of people by age group)

We use the population projections from the United Nation's ECLAC-CELADE division, updated in 2024

Year	Total population	Ages													
		0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65 and older
2056	5,778,862	325,937	336,016	345,082	353,566	356,594	358,017	359,071	376,316	388,558	371,852	357,836	343,883	323,470	1,182,664
2057	5,799,565	324,342	334,143	343,370	352,266	356,560	357,819	359,398	369,697	389,500	375,549	359,635	346,084	326,550	1,204,652
2058	5,819,310	322,897	332,238	341,672	350,715	356,412	357,724	359,591	363,861	389,415	378,947	361,774	348,052	329,674	1,226,338
2059	5,837,996	321,549	330,314	339,999	349,044	356,080	357,689	359,489	360,067	387,206	382,069	363,859	350,152	332,723	1,247,756
2060	5,855,661	320,271	328,430	338,324	347,311	355,465	357,755	359,142	358,929	382,195	384,945	366,130	352,231	335,556	1,268,977
2061	5,872,415	319,060	326,673	336,557	345,594	354,532	357,850	358,843	359,162	375,644	386,973	369,361	353,990	338,107	1,290,069
2062	5,888,237	317,891	325,096	334,695	343,892	353,261	357,845	358,682	359,519	369,082	387,949	373,079	355,843	340,371	1,311,032
2063	5,903,119	316,783	323,652	332,792	342,197	351,716	357,706	358,599	359,728	363,290	387,900	376,500	358,024	342,404	1,331,828
2064	5,917,137	315,720	322,309	330,866	340,530	350,051	357,382	358,575	359,641	359,530	385,734	379,645	360,156	344,567	1,352,431
2065	5,930,328	314,650	321,042	328,985	338,865	348,340	356,790	358,665	359,318	358,423	380,783	382,546	362,472	346,709	1,372,740
2066	5,942,696	313,625	319,834	327,232	337,106	346,636	355,877	358,772	359,038	358,679	374,294	384,607	365,733	348,538	1,392,725
2067	5,954,252	312,680	318,665	325,657	335,247	344,945	354,615	358,779	358,891	359,055	367,794	385,621	369,480	350,454	1,412,369
2068	5,965,027	311,714	317,567	324,223	333,355	343,271	353,101	358,665	358,833	359,287	362,069	385,618	372,930	352,693	1,431,701
2069	5,975,055	310,715	316,527	322,887	331,447	341,632	351,476	358,379	358,843	359,234	358,365	383,515	376,110	354,889	1,451,036
2070	5,984,216	309,703	315,465	321,625	329,577	339,988	349,790	357,813	358,952	358,934	357,296	378,638	379,047	357,267	1,470,121
2071	5,992,545	308,585	314,449	320,423	327,832	338,250	348,114	356,925	359,082	358,681	357,582	372,235	381,151	360,572	1,488,664
2072	6,000,140	307,357	313,519	319,264	326,270	336,421	346,463	355,700	359,120	358,565	357,992	365,826	382,221	364,363	1,507,059
2073	6,006,869	306,063	312,565	318,173	324,842	334,544	344,816	354,213	359,030	358,533	358,255	360,181	382,281	367,857	1,525,516
2074	6,012,739	304,666	311,572	317,130	323,515	332,651	343,196	352,608	358,762	358,561	358,230	356,541	380,254	371,080	1,543,973
2075	6,017,721	303,197	310,564	316,074	322,257	330,795	341,567	350,944	358,212	358,691	357,959	355,518	375,475	374,062	1,562,406
2076	6,021,774	301,627	309,450	315,061	321,055	329,058	339,837	349,284	357,341	358,836	357,732	355,840	369,186	376,226	1,581,241
2077	6,024,997	299,944	308,224	314,132	319,905	327,500	338,019	347,647	356,132	358,893	357,643	356,286	362,890	377,364	1,600,418
2078	6,027,415	298,201	306,939	313,181	318,825	326,088	336,167	346,021	354,668	358,824	357,637	356,584	357,357	377,510	1,619,413
2079	6,029,006	296,480	305,547	312,188	317,790	324,776	334,291	344,419	353,084	358,578	357,694	356,594	353,811	375,590	1,638,164
2080	6,029,734	294,800	304,081	311,182	316,731	323,524	332,444	342,806	351,437	358,045	357,849	356,361	352,853	370,948	1,656,673
2081	6,029,663	293,166	302,518	310,072	315,723	322,333	330,722	341,096	349,796	357,197	358,021	356,171	353,226	364,814	1,674,808
2082	6,028,780	291,554	300,839	308,850	314,798	321,190	329,181	339,296	348,177	356,011	358,102	356,117	353,714	358,677	1,692,274
2083	6,027,071	289,939	299,100	307,563	313,850	320,116	327,778	337,450	346,563	354,564	358,055	356,144	354,059	353,291	1,708,599
2084	6,024,630	288,318	297,380	306,172	312,860	319,086	326,471	335,584	344,972	352,997	357,830	356,232	354,119	349,868	1,722,741
2085	6,021,447	286,675	295,703	304,706	311,860	318,038	325,234	333,756	343,379	351,371	357,323	356,419	353,933	348,998	1,734,052
2086	6,017,632	285,078	294,074	303,151	310,754	317,039	324,059	332,051	341,686	349,752	356,500	356,624	353,793	349,439	1,743,632
2087	6,013,239	283,579	292,466	301,472	309,536	316,122	322,928	330,524	339,902	348,152	355,340	356,735	353,787	349,994	1,752,702
2088	6,008,249	282,175	290,855	299,730	308,256	315,185	321,867	329,138	338,076	346,559	353,924	356,724	353,862	350,405	1,761,493
2089	6,002,577	280,829	289,238	298,012	306,866	314,203	320,845	327,842	336,225	344,987	352,384	356,529	353,995	350,530	1,770,092
2090	5,996,320	279,522	287,600	296,344	305,406	313,208	319,806	326,616	334,410	343,413	350,782	356,055	354,227	350,416	1,778,515
2091	5,989,541	278,253	286,011	294,719	303,854	312,112	318,823	325,457	332,724	341,740	349,192	355,266	354,474	350,346	1,786,570
2092	5,982,239	277,016	284,514	293,112	302,182	310,906	317,919	324,340	331,211	339,975	347,620	354,142	354,631	350,410	1,794,261
2093	5,974,374	275,772	283,110	291,500	300,443	309,627	316,987	323,284	329,834	338,165	346,050	352,758	354,662	350,546	1,801,636
2094	5,965,964	274,557	281,765	289,882	298,722	308,240	316,009	322,271	328,548	336,328	344,500	351,253	354,509	350,743	1,808,637
2095	5,956,996	273,404	280,454	288,239	297,045	306,772	315,002	321,231	327,330	334,527	342,947	349,686	354,080	351,034	1,815,245
2096	5,947,512	272,272	279,176	286,643	295,414	305,206	313,891	320,236	326,168	332,848	341,292	348,124	353,336	351,339	1,821,567
2097	5,937,608	271,140	277,931	285,143	293,808	303,534	312,677	319,326	325,052	331,344	339,546	346,581	352,254	351,553	1,827,719
2098	5,927,195	270,005	276,684	283,736	292,198	301,790	311,395	318,390	324,000	329,978	337,756	345,040	350,917	351,640	1,833,666
2099	5,916,293	268,857	275,464	282,386	290,577	300,070	310,005	317,410	322,991	328,702	335,939	343,523	349,459	351,548	1,839,362
2100	5,904,925	267,695	274,309	281,075	288,932	298,390	308,533	316,410	321,958	327,495	334,159	342,000	347,938	351,178	1,844,853

Source: CELADE - Population Division of ECLAC and United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects, 2024, online edition.

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Exhibit 27: Summary of BofA projections for the new, unified, pension system ($millions)

Scenario after 2025 social security reform

	I) Revenues		II) Expenditures								
Year	Contributions	Interest on reserves	Old-age pensions	Survivorship pensions	Disability pensions	Other/administrative expenditures	**Overall balance (= I - II)**	**Overall balance, excluding interest revenue**	**Overall balance, assuming "system sustainability transfer" is zero**	**"System sustainability transfer"**	**Reserves (assuming "system sustainability transfer" grows 4% per year)**
2025	2,426	383	2,199	126	81	69	335	-48	335	0	9,911
2026	2,541	416	2,366	133	81	59	318	-98	318	966	11,195
2027	2,782	470	2,526	140	82	60	445	-26	404	1,005	12,644
2028	2,866	531	2,693	148	82	61	413	-118	328	1,045	14,102
2029	3,124	592	2,867	156	82	63	549	-43	417	1,087	15,737
2030	3,217	661	3,043	163	83	65	524	-137	341	1,130	17,391
2031	3,310	765	3,227	170	83	66	529	-236	280	1,175	19,096
2032	3,406	840	3,416	178	84	68	501	-339	189	1,222	20,819
2033	3,503	916	3,610	186	84	70	470	-446	90	1,271	22,560
2034	3,600	993	3,807	195	84	71	435	-557	-17	1,322	24,317
2035	3,696	1,070	4,011	203	85	73	393	-677	-137	1,375	26,085
2036	3,792	1,200	4,223	212	85	75	397	-803	-245	1,430	27,912
2037	3,890	1,284	4,440	222	86	77	349	-935	-389	1,487	29,748
2038	3,988	1,368	4,663	232	86	79	297	-1,072	-543	1,547	31,592
2039	4,086	1,453	4,891	242	87	81	239	-1,214	-711	1,608	33,439
2040	4,185	1,538	5,124	251	87	83	179	-1,359	-888	1,673	35,291
2041	4,285	1,694	5,349	260	87	85	198	-1,496	-1,047	1,740	37,229
2042	4,386	1,787	5,575	269	88	87	154	-1,633	-1,235	1,809	39,192
2043	4,487	1,881	5,802	278	88	89	111	-1,770	-1,431	1,882	41,185
2044	4,590	1,977	6,023	288	89	91	75	-1,902	-1,631	1,957	43,217
2045	4,693	2,074	6,238	298	89	94	48	-2,026	-1,834	2,035	45,300
2046	4,797	2,265	6,443	308	90	94	126	-2,139	-2,031	2,117	47,543
2047	4,902	2,377	6,636	319	90	95	139	-2,238	-2,232	2,201	49,883
2048	5,009	2,494	6,816	330	91	96	171	-2,324	-2,428	2,289	52,342
2049	5,117	2,617	6,978	342	91	97	226	-2,391	-2,618	2,381	54,949
2050	5,226	2,747	7,124	350	91	98	310	-2,438	-2,795	2,476	57,735
2051	5,336	2,887	7,231	359	92	99	442	-2,445	-2,941	2,575	60,752
2052	5,448	3,038	7,317	368	92	100	608	-2,430	-3,073	2,678	64,038
2053	5,561	3,202	7,388	377	93	101	803	-2,399	-3,196	2,785	67,627
2054	5,675	3,381	7,446	387	93	102	1,027	-2,354	-3,311	2,897	71,551
2055	5,790	3,578	7,491	397	94	103	1,282	-2,295	-3,418	3,013	75,846
2056	5,905	3,792	7,522	406	94	104	1,570	-2,222	-3,516	3,133	80,549
2057	6,022	4,027	7,538	417	95	105	1,894	-2,133	-3,603	3,258	85,702
2058	6,139	4,285	7,540	427	95	106	2,256	-2,030	-3,679	3,389	91,346
2059	6,257	4,567	7,531	438	96	108	2,652	-1,915	-3,749	3,524	97,522
2060	6,375	4,876	7,502	444	96	107	3,102	-1,774	-3,795	3,665	104,289
2061	6,494	5,214	7,468	451	97	106	3,587	-1,628	-3,838	3,812	111,688
2062	6,615	5,584	7,430	458	97	106	4,108	-1,476	-3,879	3,964	119,761
2063	6,735	5,988	7,390	465	98	105	4,666	-1,322	-3,919	4,123	128,550
2064	6,857	6,428	7,403	472	98	104	5,208	-1,220	-4,012	4,288	138,046
2065	6,980	6,902	7,414	479	99	104	5,787	-1,115	-4,108	4,459	148,292
2066	7,103	7,415	7,423	486	99	103	6,407	-1,008	-4,206	4,638	159,337
2067	7,226	7,967	7,432	493	100	102	7,066	-901	-4,310	4,823	171,226
2068	7,349	8,561	7,442	500	100	102	7,766	-795	-4,420	5,016	184,009
2069	7,472	9,200	7,555	508	101	101	8,408	-792	-4,638	5,217	197,634
2070	7,596	9,882	7,666	510	101	101	9,100	-782	-4,860	5,426	212,159
2071	7,720	10,502	7,764	513	102	100	9,743	-759	-5,036	5,643	227,544
2072	7,844	11,150	7,860	516	102	99	10,417	-733	-5,214	5,868	243,829
2073	7,970	11,826	7,951	518	103	99	11,126	-700	-5,388	6,103	261,058
2074	8,101	12,531	8,034	521	103	98	11,875	-656	-5,554	6,347	279,279
2075	8,236	13,266	8,110	523	104	98	12,667	-599	-5,710	6,601	298,547
2076	8,375	14,032	8,179	526	104	97	13,500	-532	-5,857	6,865	318,912
2077	8,516	14,829	8,243	529	105	96	14,372	-457	-5,998	7,140	340,424
2078	8,659	15,660	8,299	531	105	96	15,287	-373	-6,130	7,425	363,136
2079	8,805	16,523	8,344	534	106	95	16,249	-274	-6,248	7,722	387,107

Exhibit 27: Summary of BofA projections for the new, unified, pension system ($millions)

Scenario after 2025 social security reform

Year	I) Revenues: Contributions	I) Revenues: Interest on reserves	II) Expenditures: Old-age pensions	II) Expenditures: Survivorship pensions	II) Expenditures: Disability pensions	II) Expenditures: Other/administrative expenditures	Overall balance (= I - II)	Overall balance, excluding interest revenue	Overall balance, assuming "system sustainability transfer" is zero	"System sustainability transfer"	Reserves (assuming "system sustainability transfer" grows 4% per year)
2080	8,954	17,420	8,368	534	106	95	17,271	-149	-6,338	8,031	412,409
2081	9,107	18,352	8,385	535	107	94	18,339	-13	-6,416	8,352	439,101
2082	9,263	19,320	8,400	536	107	94	19,447	126	-6,487	8,686	467,234
2083	9,420	20,325	8,413	536	108	94	20,594	269	-6,551	9,034	496,862
2084	9,578	21,365	8,422	537	109	94	21,782	417	-6,606	9,395	528,039
2085	9,739	22,442	8,428	537	109	94	23,013	571	-6,651	9,771	560,823
2086	9,901	23,555	8,429	538	110	94	24,286	732	-6,685	10,162	595,271
2087	10,065	24,704	8,425	538	110	94	25,602	899	-6,708	10,568	631,442
2088	10,231	25,889	8,417	539	111	94	26,961	1,072	-6,718	10,991	669,394
2089	10,399	27,110	8,404	539	111	94	28,362	1,251	-6,715	11,431	709,187
2090	10,569	28,367	8,385	540	112	94	29,806	1,438	-6,699	11,888	750,880
2091	10,739	29,660	8,373	540	112	94	31,279	1,620	-6,680	12,364	794,523
2092	10,912	30,986	8,572	541	113	94	32,578	1,592	-6,863	12,858	839,960
2093	11,085	32,338	8,774	541	114	94	33,901	1,562	-7,049	13,372	887,233
2094	11,261	33,715	8,979	542	114	95	35,246	1,531	-7,236	13,907	936,386
2095	11,439	35,114	9,187	543	115	95	36,614	1,499	-7,424	14,464	987,463
2096	11,619	36,536	9,399	543	115	95	38,002	1,466	-7,613	15,042	1,040,508
2097	11,801	37,979	9,613	544	116	96	39,411	1,432	-7,802	15,644	1,095,562
2098	11,985	39,440	9,831	544	116	96	40,838	1,398	-7,990	16,270	1,152,670
2099	12,172	40,920	10,051	545	117	96	42,283	1,364	-8,178	16,920	1,211,874
2100	12,362	42,416	10,273	545	118	96	43,745	1,329	-8,364	17,597	1,273,216

Note: We use UN/ECLAC/CELADE population projections for Panama. We assume 2% wages growth, 1.5% inflation, 3.7% GDP growth, gradual increase from 4% to 5% in return on reserves (and decrease in final decades), among other parameters.

Source: BofA Global Research, Social Security Institute (CSS), Congress, Statistics Agency (INEC), CELADE - Population Division of UN/ECLAC.

BofA GLOBAL RESEARCH

Valuation & risk

Panama (PANAMA)

We are Overweight on Panama's external bonds as bonds price in a significant discount to Panama's ratings and a high probability of a second high-yield downgrade. We think pension reform, dialogue to reopen Minera Panama, and fiscal discipline could reduce the probability or the delay the timing of a possible downgrade.

Upside risks are approval of pension reform, the re-opening of Minera Panama, and fiscal discipline.

Downside risks are fiscal slippage, issuance, geopolitical tensions with the US, slow growth, credit rating downgrades, social protests, arbitration proceedings.

Analyst Certification

We, Jane Brauer and Lucas Martin, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Disclosures

Important Disclosures

Credit opinion history

Panama / PANAMA

Sovereign	Date[R1]	Action	Recommendation
Panama / PANAMA	31-May-2022		Overweight
	04-Sep-2022	Downgrade	Marketweight
	21-Nov-2022	Restricted	NA
	29-Nov-2022	Coverage Resumed	Marketweight
	05-Feb-2023	Upgrade	Overweight
	09-Jan-2024	Downgrade	Marketweight
	05-Mar-2025	Upgrade	Overweight

Table reflects credit opinion history as of previous business day's close. ^First date of recommendation within last 36 months. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."[R1]

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Sovereign Investment Rating Distribution: Global Group (as of 31 Mar 2025)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R2]	Count	Percent
Buy	14	24.14%	Buy	8	57.14%
Hold	38	65.52%	Hold	18	47.37%
Sell	6	10.34%	Sell	1	16.67%

[R2] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only Sovereign issuer recommendations. A Sovereign issuer rated Overweight is included as a Buy, a Sovereign issuer rated Marketweight is included as a Hold, and a Sovereign issuer rated Underweight is included as a Sell.

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