Sunny weather

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Last month's column looked at South American prospects (The BRICs and the Beatles – Issue 234) but there are promising developments in Central America too, especially Panamá, a country whose economy has grown faster than that of any other country in Latin America in 2012. In fact it is said that the country's population (3.6 million) is now richer than most Latin Americans, despite the extraordinary period of good fortune that South America in particular is experiencing and which has been compared to the appearance of the sun following an eclipse.

The European Parliament has approved the European Union – Central America Association Agreement, leading to, effectively, a free trade agreement, which will come into force in each Central American country (except Belize) when all the respective parliaments have given it its blessing. The agreement moves beyond the boundaries of traditional trade liberalisation by, importantly, providing a political dialogue and other co-operation; the prospects are promising and it is hoped that by the end of the year the process will be complete. This is not just progress; it is encouraging diversification from North America and should be welcomed. It will become even more important to reach beyond Europe and the United States of America in the years to come, as their two centuries of global dominance recedes against a rising east and south.

Another step in the right direction has been (finally) the settlement of what has become known as the "Banana Wars" involving the EU, US and a few Latin American countries and which has festered for some twenty years. Last November's agreement puts to an end eight World Trade Organisation cases. The Central American governments who were protesting against the favourable EU tariffs protecting small growers in former European colonies in Africa and the Caribbean had a powerful ally in that many of their plantations are owned by large companies in the US. The EU market, in fact, is the largest in the world with about 5.5 million tonnes imported in 2011 of which 70% came from Latin America, whereas not even 18% of the total originated in African, Caribbean and Pacific countries. The EU – Central America Association Agreement will see tariffs for Central American countries fall gradually until 2020.

The banana peel that is transparency is, encouragingly, improving according to Transparency International's perceptions of corruption index. Transparency International has just reached its 20th anniversary and is a global civil society organisation dedicated to raising transparency standards. Bearer shares have frequently been seen as the villain of the plot frustrating corporate transparency but they are far from being the only route to anonymity and so I am not one of those who sees the control of bearer shares as a "cure-all" (the Panamanian government is planning to immobilise them similar to the practice followed in other offshore corporate centres such as the British Virgin Islands).

Guatemala's Congress last October approved an anti-corruption law, which also included the ratification of two United Nations' conventions on transnational crime and corruption. What have been termed "political crimes" have been added to the penal code and encompass embezzlement and illicit enrichment. This is considered a triumph for the country's president, Otto Pérez Molina of the Patriotic Party, who took office last year. Guatemala still struggles, however, with being one of the most violent countries in the world, although the murder rate has started to decline recently. The country has also been removed from the Organisation for Economic Co-operation and Development's ubiquitous grey list of those countries which do not comply fully with its standards of transparency and information exchange, and the move came after a Multilateral Convention on Mutual Administrative Assistance in Tax Matters was signed at the end of last year, making the country the 42nd one to join the convention which is the most comprehensive multilateral instrument used for international tax co-operation and information exchange. On the economic front it is true to say that although Guatemala's gross domestic product might have grown by up to 3.9% last year, this is not sufficient to counter the (approximate) 2.5% population growth coupled with an inflation rate of 3.45%.

If Guatemala's moves have raised its profile in a positive way, Costa Rica, Central America's oldest democracy, continues to enjoy a broad level of international confidence (there are 174 countries listed on Transparency International's 2012 corruption perceptions index and it stands in 48th position, being in the top third of those accepted as having the lowest level of corruption). Last November, Costa Rica was able successfully to issue USD1 billion in Eurobonds at a rate of 4.25% (the offer was over-subscribed fourfold). The measure was seen as part of the attempt to improve finances, enabling access to financing at a lower cost than is available through the domestic banking system; it is hoped that a knock-on effect will be to bring down local interest rates to help tackle the public sector debt (the Economist Intelligence Unit expects a deficit of 4.4% of gross domestic product for last year). Meanwhile, inflation (fuelled – if you'll excuse the pun-by oil prices, in part) appears to be being kept under control and should, for the present, remain within the Central Bank's 4%-6% range and so producing single-digit inflation for the fourth consecutive year.

The International Monetary Fund visited Honduras at the end of last year and voiced its concerns about the external risks that the country faced, citing a widening current account deficit and shrinking international reserves because of less favourable terms of trade and an expansionary monetary policy. The IMF has warned against a growing deficit and has approved a proposal to issue sovereign debt abroad to ease pressures. At the time of writing, however, neither a clear plan to address the deficit, nor final approval of the 2013 budget, has been achieved.

El Salvador, on the other hand, has approved its 2013 budget of USD4.5 billion (although it was passed with rancour and the slimmest of margins). The budget projects growth of 2.3%, a fraction less than the IMF's prediction. Moody's, the credit rating agency, has cut the long-term government bond rating to Ba 3 (stable) from Ba 2 due to perceived weak prospects. Significantly, foreign direct investment has halved between June 2011 (USD242 million) and June 2012 (USD116 million). Despite any negative aspects, last November the Salvadorean government returned to the international bond market for the first time in three years when it successfully issued USD800 million in Eurobonds at an interest rate of 5.88% (above Costa Rica's, although originally it was negotiated as high as 6.5%); it was almost four times oversubscribed. The bond will certainly help to relieve short-term pressures on government finances.

Regardless of any ambitions for a canal like Panama's, Nicaragua has gained a large expanse of Caribbean Sea (90,000km²) following a ruling by the International Court of Justice over the maritime boundary between the country and Colombia. And although under the ruling Colombia gets to keep the islands of San Andres and Providencia, Nicaragua has an area not only rich in fish but possibly hydrocarbons too. Already two American companies have commenced preliminary exploration processes in the Atlantic with another US company exploring off the Pacific coast. The bad news for Nicaragua is that this season's coffee crop may be down by as much as 20% due to an outbreak of the roya fungus (the country usually earns some USD440 million annually, about 5% of GDP). It is not alone.

The fungus, in fact, has been known about since the mid-1970s and coffee-growers in other parts of Central America have suffered too, with perhaps as much as 70% of crops in Honduras and Guatemala affected. In Guatemala's case, 100,000 jobs could be at risk, not to mention the decline in exports. Regional coffee associations have joined forces to fight the disease.

So as the battle over bananas comes to an end, the looming crisis over coffee has to be tackled. But whatever the challenges, there is no doubt that Central America is better equipped to face them in this new century. Some of South America's economic sunshine, following its eclipse, is sure to spread across every part of Central America over time.

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