

Honduras Since the Coup: Economic and Social Outcomes

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Executive Summary

In this paper, we present a broad overview of economic and social trends in Honduras since 2006, including the years following the military coup of June 2009. We find that:

- Economic growth has slowed since the 2009 coup. From 2006-2008 average annual GDP growth was 5.7 percent. In 2009 Honduras' GDP, as with most countries in Central America, contracted due to the world recession. From 2010-2013, average annual growth has been only 3.5 percent.
- Economic inequality, which decreased for four consecutive years starting in 2006, began trending upward in 2010. Honduras now has the most unequal distribution of income in Latin America.
- In the two years after the coup, over 100 percent of all real income gains went to the wealthiest 10 percent of Hondurans.
- Social spending, including on education and health care, increased as a percent of GDP from 2006-2008. Under the Lobo administration, social spending has been steadily reduced even as total spending has increased as a percent of GDP.
- Poverty and extreme poverty rates decreased by 7.7 and 20.9 percent respectively during the Zelaya administration. From 2010-2012, the poverty rate increased by 13.2 percent while the extreme poverty rate increased by 26.3 percent.
- The unemployment situation has worsened from 2010-2012. The number of involuntary part-time workers and those unemployed has increased from 6.8 percent in 2008 to 14.1 percent in 2012.
- The minimum wage doubled in real terms from 2006-2009. It has increased by 33.5 percent since. At the same time, the number of people working full-time but not receiving the minimum wage has gone from 28.8 percent of the labor force in 2008 to 43.6 percent in 2012. Even when the minimum wage is raised, fewer people are now benefitting from the change.
- Honduras was in a relatively strong position to stimulate growth when Porfirio Lobo came into the presidency, with debt-to-GDP and debt servicing costs at low levels. However, the new government cut spending as a percent of GDP in both 2010 and 2011.

Economic Growth in Post-Coup Honduras

Overall Growth in Context

In the three years before the global recession, the economies of Central America grew rapidly, led by Costa Rica and Honduras. Between 2006 and 2008, the Honduran economy grew at an average annual rate of 5.7 percent, as shown in Table 1. The Honduran economy grew over 6 percent in both 2006 and 2007; and in 2008, even as the U.S., its largest trading partner, slipped into recession, Honduras had the highest growth among its Central American peers, with 4.2 percent real GDP growth. The 2009 global recession brought a sharp reduction in external demand and a drop in remittances, which pushed almost all of the Central American economies into recession. Only Guatemala, which registered 0.5 percent growth, avoided a decline in real GDP.

TABLE 1

Central America: Average Annual GDP Growth				
	2003-2005	2006-2008	2009	2010-2013
Costa Rica	5.5%	6.4%	-1.0%	4.5%
El Salvador	2.6%	3.0%	-3.1%	1.8%
Guatemala	3.0%	5.0%	0.5%	3.3%
Honduras	5.6%	5.7%	-2.4%	3.6%
Nicaragua	4.0%	4.4%	-2.2%	4.6%

Source: IMF WEO, authors' calculations.

But Honduras had additional problems that stemmed from its 2009 military coup and the resulting changes in economic policy. While Porfirio Lobo came into the presidency after a year of recession and facing a difficult external environment, Honduras was at the time actually in a relatively strong position to stimulate growth. As will be discussed in the next section, the debt-to-GDP ratio and debt servicing costs were both at low levels and the Zelaya administration had been running consistently low deficits, creating space for an expansionary fiscal policy in 2010 and 2011. However the new government cut spending as a percent of GDP in both 2010 and 2011.

As can be seen in Table 2, since 2010, the public sector has been a drag on growth. Public consumption spending slowed growth in two out of the three years, as did public gross fixed capital formation (GFKF). This is in contrast to the pre-recession years when the public sector contributed positively to growth.

TABLE 2

Honduras: Contributions to GDP Growth, by Expense Category								
	2005	2006	2007	2008	2009	2010	2011	2012
GDP	6.1	6.6	6.2	4.2	-2.4	3.7	3.8	3.9
By Expense Type								
Private Consumption	4.4	6.2	4.4	2.2	0.1	2.7	2.7	2.2
Public Consumption	1.4	0.5	1.8	0.6	1.0	-0.2	-0.1	0.2
Private GFKF	0.4	3.4	5.8	1.3	-10.1	0.8	3.2	1.2
Public GFKF	-0.7	-0.2	0.4	0.6	-0.6	-0.5	0.2	-0.3
Change in Inventories	0.0	-1.3	0.3	0.9	-3.5	1.9	1.5	-0.1
Exports	3.4	1.0	1.5	0.5	-9.0	7.7	4.6	3.3
Imports	-2.8	-3.1	-8.0	-1.8	19.8	-8.7	-8.0	-2.6

Source: Banco Central de Honduras, authors' calculations.

Also worth noting is that economic growth during the Zelaya administration was buoyed by high levels of investment by the private sector – levels which have not been reached since. Private gross fixed capital formation contributed almost twice as much to growth over Zelaya's term in office as in the period after the coup.

Overall growth has been slower in the years 2010-2012 compared to the three years during the Zelaya administration. In both time periods, growth was led by finance, communications, manufacturing and agriculture. These are all large sectors in the economy—manufacturing at 19.5 percent of GDP is the largest, followed by finance at 15.1 percent, agriculture at 13.8 percent and communications at 9.7 percent.

Construction was one of the sectors hardest hit by the recession. This sector accounted for over 6.5 percent of employment during the Zelaya administration but has since fallen to just over 5 percent. After falling by over 13 percent in 2009, the construction sector has grown by just 1.5 percent annually in 2010-2012, compared to 7.7 percent annual growth during the Zelaya administration, as can be seen in Table 3. Education, health services and community and social services all experienced much higher growth during the Zelaya years; together these sectors account for roughly 10 percent of GDP and 15 percent of employment.

TABLE 3**Honduras: Average Annual GDP Growth, by Sector**

	2001-2005	2006-2008	2009	2010-2012
Total	4.7	5.7	-2.4	3.8
By Sector				
Agriculture	2.7	5.0	-1.9	6.0
Mining	5.2	-8.7	-0.9	-2.7
Manufacturing	5.8	4.3	-8.1	3.6
Distribution of Water & Elec.	-0.9	15.9	4.3	2.4
Construction	-3.5	7.7	-13.3	1.5
Household Goods; Automotive	3.1	4.0	-11.1	3.8
Hotels & Restaurants	3.7	4.7	-7.5	3.3
Transport & Storage	5.7	5.1	-4.1	4.8
Communications	12.3	16.9	15.7	7.4
Financial Intermediation	19.2	19.5	-0.4	7.8
Homeownership	4.0	3.6	1.0	1.8
Real Estate & Business Services	4.8	6.4	0.7	2.3
Public Admin. & Defense; Soc. Sec.	5.3	3.7	5.5	1.7
Education	4.7	5.6	7.0	1.4
Health Services	5.3	12.7	8.5	3.5
Community & Social Services	5.8	7.0	2.7	2.7
Financial Intermediation Services	16.4	22.0	2.6	9.0
Net Tax	4.6	0.2	-4.2	3.9

Source: Banco Central de Honduras, authors' calculations.

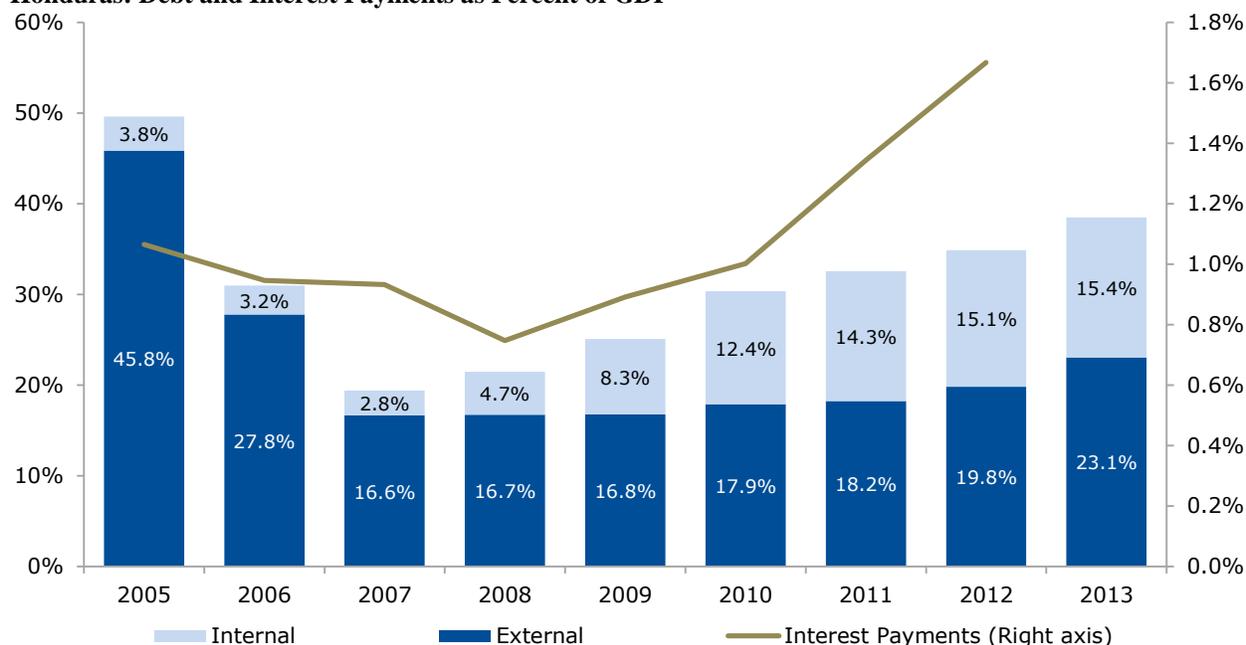
Debt Sustainability and Remittances

Honduras' public debt has grown since 2008, but from very low levels. This is because in 2005, Honduras benefited from US\$ 1 billion worth of multilateral debt relief under the Heavily Indebted Poor Countries Debt Initiative,¹ and then in 2007 the Inter-American Development Bank approved US\$ 1.4 billion in additional debt relief.² In Figure 1 we can see that public sector debt was low relative to the size of the economy, only 19.4 percent of GDP in 2007, and interest payments were extremely low as well, only 0.9 percent of GDP. Even in 2009, when the recession began in full, the debt to GDP ratio stood at 25.1 percent of GDP and interest payments had risen to just 0.9 percent of GDP.

¹ World Bank (2005).

² Inter-American Development Bank (2007).

FIGURE 1
Honduras: Debt and Interest Payments as Percent of GDP



Source: Secretaría de Finanzas, various years.

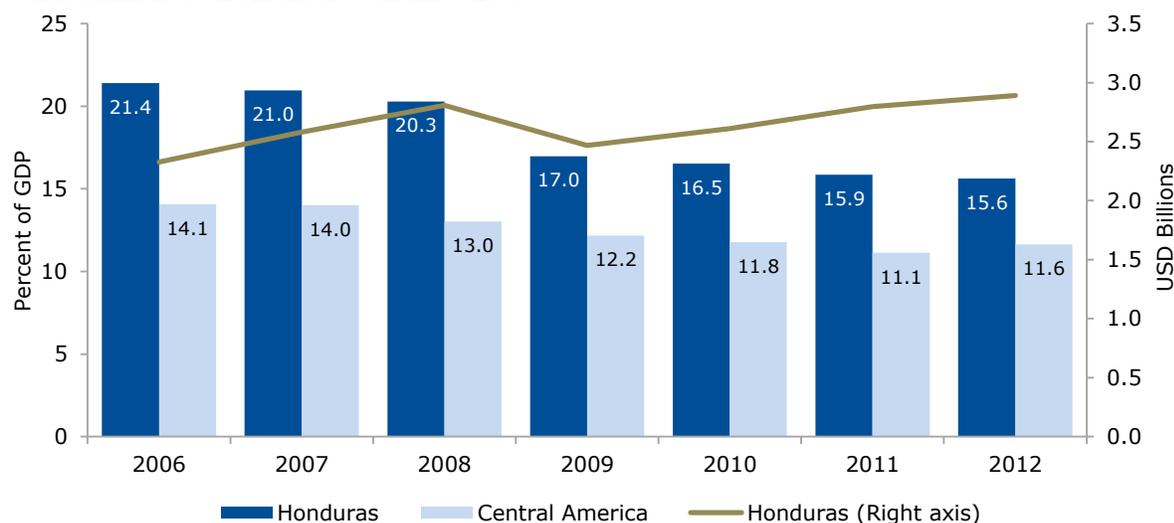
This low level of debt was reached not only due to debt relief, but also because the Zelaya administration ran very low budget deficits. The fiscal deficit in 2006 was only 1.1 percent of GDP, and it stayed below 3 percent in the next two years. As discussed previously, Honduras was in a good position to respond effectively to the global recession, but the coup and post-coup governments did not take advantage of this opportunity.

Much of the increase in public debt that we see in Figure 1 is internal debt. While some media accounts focus on the higher interest rates charged by Honduran commercial banks compared to international financial markets for sovereign debt, perhaps the more relevant factor to point out is that domestic debt is denominated in Lempiras. Debt payable in domestic currency has numerous advantages over foreign public debt, most importantly in that it does not adversely affect the balance of payments. The next president will have plenty of fiscal space to return to economic policies that reduce poverty and increase employment and economic development. To the extent that deficit reduction is a priority, it would be more appropriate to address decreasing revenues rather than cut expenditure.

Remittances, another important resource for the Honduran economy in terms of national income and currency, have followed a different trajectory. Remittances peaked in 2006,

reaching 21.4 percent of GDP. In Figure 2 we see that the average country in Central America³ has experienced steadily decreasing levels of remittances since 2006. Honduras experienced a similar trend of decreasing remittances, but with a sharp 12.1 percent drop in 2009, representing a loss of US\$ 340 million. Absolute levels of remittances have increased since then, but they have not kept up with overall GDP growth. Nevertheless, Honduras still received remittances equivalent to 15.6 percent of GDP in 2012, considerably higher than the average in Central America.

FIGURE 2
Central America and Honduras: Remittances



Source: Banco Central de Honduras, Banco Central de Nicaragua, Banco de Guatemala, Banco de la Reserva de El Salvador, authors' calculations.

Although the slower growth experienced in Honduras since 2009 is partially due to the more difficult external environment, the Lobo government had ample opportunities for counter-cyclical policies to make up for the loss in private demand. The majority of countries in the hemisphere in fact did this, and many avoided recession altogether. Bolivia, for example, grew by 3.4 percent in 2009⁴ due to a sharp increase in public investment. And as noted above, the Honduran government's negative contribution to growth continued even as the economy recovered.

The impact of the post-coup policy changes have not just been a slower growth rate. The coup has had a profound impact on social development in Honduras. As will be seen in the

³ This includes El Salvador, Guatemala and Nicaragua. Costa Rica is excluded as remittances equal less than 2 percent of GDP, see BCCR (2013).

⁴ IMF (2013).

next section, despite economic growth, the majority of Hondurans have seen their real (inflation-adjusted) income fall, and poverty, unemployment, and underemployment have increased in the years since the coup.

Rising Inequality, Poverty, Unemployment, and Underemployment

Inequality

While the previous section discussed declining growth rates associated with the post 2009 period, the most striking difference is how the gains from economic growth have been distributed. According to the latest data, Honduras is now the most unequal country in Latin America. This is a very sharp reversal of previous trends, which saw decreasing inequality. The data is only available through 2011 in the case of Honduras, but as can be seen in Table 4, it is one of just three countries that have seen its Gini coefficient increase since 2009. Of those three, Honduras has seen the largest increase, amounting to 12.3 percent in just two years.

TABLE 4

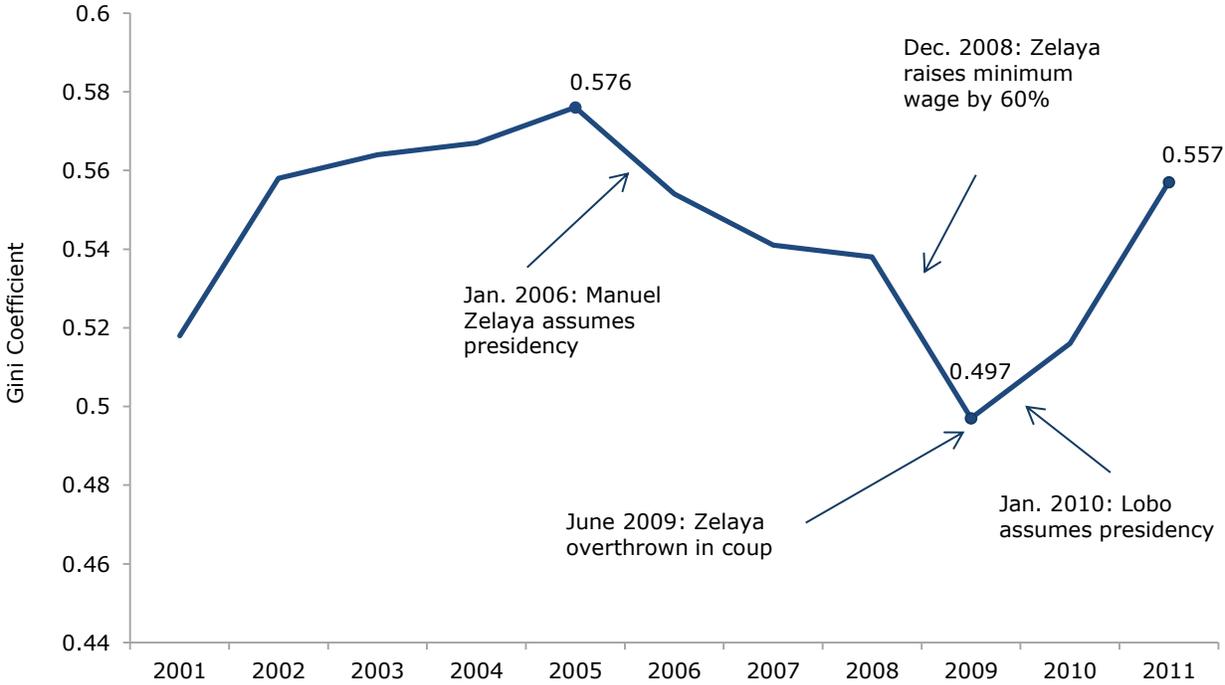
Latin American Gini Coefficients			
	2009	Latest Data	Change
Honduras	0.50	0.56	12.3%
Paraguay	0.49	0.53	8.1%
Panama	0.49	0.50	0.7%
Brazil	0.52	0.51	-1.6%
Chile	0.51	0.49	-2.3%
Guatemala	0.53*	0.52	-2.5%
Dominican Rep.	0.47	0.45	-3.0%
Colombia	0.53	0.51	-3.4%
Venezuela	0.38	0.36	-3.5%
Peru	0.46	0.44	-4.5%
Costa Rica	0.49	0.46	-5.3%
El Salvador	0.46	0.44	-5.8%
Ecuador	0.47	0.44	-6.1%
Mexico	0.48	0.45	-6.2%
Uruguay	0.44	0.41	-6.7%
Argentina	0.43	0.40	-6.9%

* Data for 2006.

Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and the World Bank), authors' calculations.

Prior to 2009, Honduras had experienced four consecutive years of decreasing inequality. As can be seen in Figure 3, the first decrease was observed in 2006, Zelaya’s first year in office. Overall, during the Zelaya administration, the Gini coefficient decreased at an average annual rate of 3.6 percent, compared to an average annual increase of 5.9 percent in the next two years. During the period 2006-2008, Honduras saw the implementation of a number of new social programs, an increase in social spending by the central government and a near 100 percent real increase in the minimum wage. These hard fought gains were, however, reversed in just the first two years after Zelaya’s removal from office. Although the world recession certainly created adverse conditions for growth, just about every other Latin American country was able to decrease inequality in the two years after 2009.

FIGURE 3
Honduras: Gini Coefficient



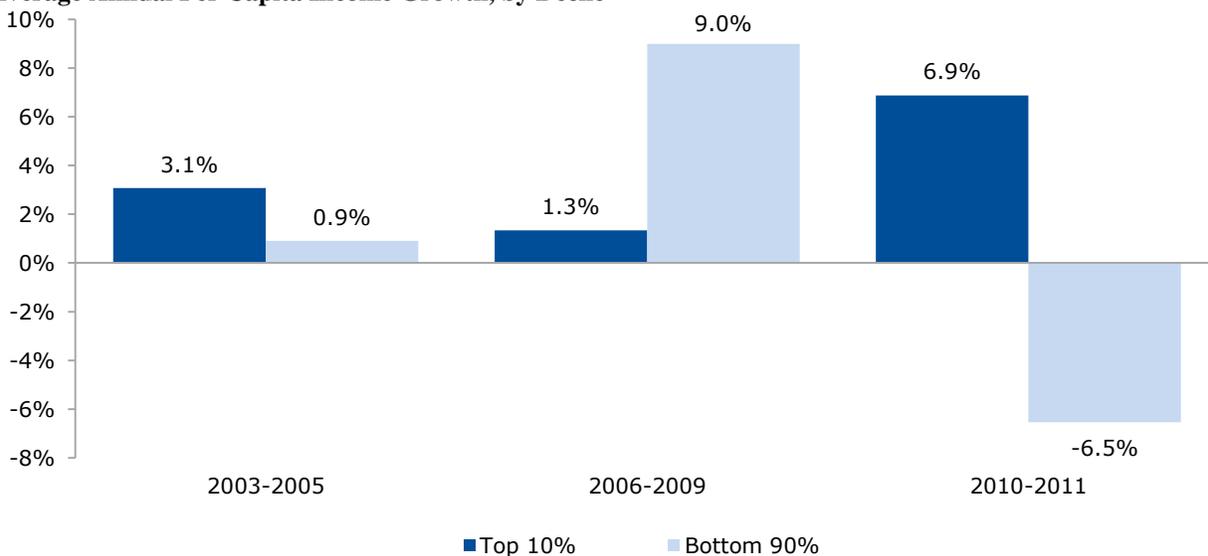
Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and the World Bank).

Note: Data is derived from household surveys conducted twice each year, for 2009 it was only performed once, prior to the coup.

Another way to look at the increasing inequality in Honduras is to break down income gains by decile. From 2003 to 2005 the top 10 percent of Hondurans had average annual income gains of 3.1 percent, compared to just 0.9 percent for the bottom 90 percent. This means that over 73 percent of all income gains during the 2003-2005 period went to the top 10

percent of households. As can be seen in Figure 4, this trend was reversed during the Zelaya administration. From 2006-2009, both the top 10 percent and bottom 90 percent of households had rising real income; but those at the bottom captured a larger share of the gains. During this period 10 percent of income gains went to the wealthiest decile.

FIGURE 4
Average Annual Per Capita Income Growth, by Decile



Source: Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank), author's calculations.

Note: Data is derived from household surveys conducted twice each year, for 2009 it was only performed once, prior to the coup.

Figure 4 shows fairly small income gains for 2006-2009 for the top 10 percent; however, they actually experienced more rapid gains from 2006-2008, but lost much of this ground during the recession of 2009. Then in 2010 and 2011, despite lower overall growth rates for the economy as a whole, the wealthiest did even better than before the recession. While those at the top captured over 100 percent of all income gains during these two years, the bottom 90 percent experienced a sharp contraction in their incomes. Average real incomes for the bottom 90 percent are now at their lowest level since 2006, the first year of Zelaya's presidency.

Poverty

With rapid economic growth and declining inequality in the distribution of income, the rates of poverty and extreme poverty were both significantly reduced from 2006 to 2009. As can be seen in Table 5, while the poverty rate decreased slightly (and extreme poverty actually

increased) from 2003-2005, there was a more rapid decrease in the poverty rate during the Zelaya administration, including a 20.9 percent decrease in the extreme poverty rate.

TABLE 5

Honduras: Poverty and Extreme Poverty Rates, Percent Change

	Poverty	Extreme Poverty
2003-2005	-1.7%	1.1%
2006-2009	-7.7%	-20.9%
2010-2012	13.2%	26.3%

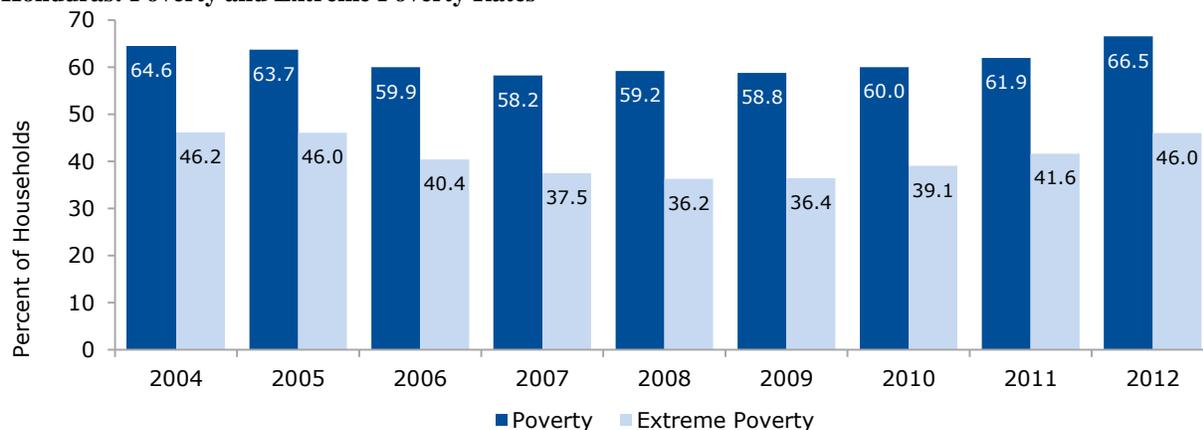
Source: Instituto Nacional de Estadísticas de Honduras, La Prensa, authors' calculations.

Note: Data is derived from household surveys conducted twice each year, for 2009 it was only performed once, prior to the coup.

It's worth noting that, despite similar GDP growth rates from 2003-2005 and 2006-2009, it was only during the latter period that extreme poverty saw such a large decrease. As can be seen in Figure 5, even at its lowest point over the last decade in 2007, 58.2 percent of the population was living in poverty, an incredibly high rate. Poverty has since increased to 66.5 percent, the highest rate in the previous 12 years for which there is data. Extreme poverty, which decreased to a low of 36.2 percent in 2008, has since increased to 46 percent, the same level as in 2005.

FIGURE 5

Honduras: Poverty and Extreme Poverty Rates

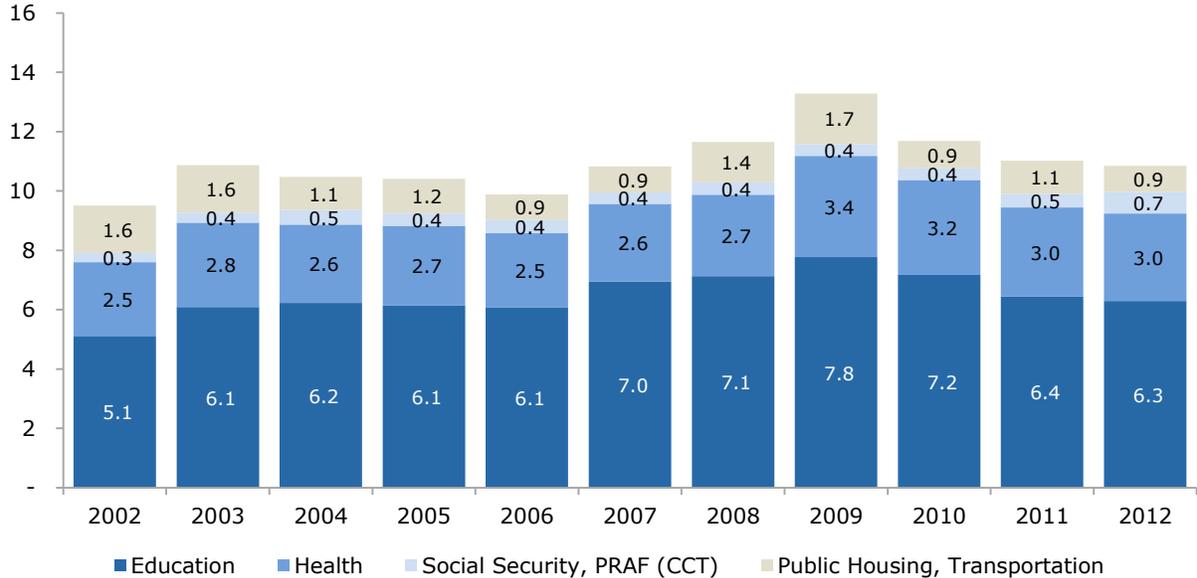


Source: Instituto Nacional de Estadísticas de Honduras. La Prensa (2013).

The large reduction in both the poverty and extreme poverty rates during the Zelaya administration occurred during a period of relatively fast growth, but also during a period of rising social spending on the part of the central government. Social spending as a percent of

GDP increased by over 27 percent from 2005 to 2009, from 10.4 percent of GDP to 13.3 percent of GDP. As can be seen in Figure 6, however, social spending as a share of GDP decreased rapidly from 2010-2012 and currently stands at 10.9 percent of GDP.

FIGURE 6
Honduras: Social Spending and Total Spending, Percent of GDP



Source: Secretaría de Finanzas, República de Honduras.

Spending on education, health, public housing and transportation all increased from 2006-2009, before falling from 2010-2012. The lone category that has seen an increase in expenditure is Social Security and PRAF, a conditional cash transfer (CCT) program, which together represent only 0.7 percent of GDP.⁵ Whereas during the Zelaya administration social spending rose as total spending rose, the Lobo administration has reduced social spending even as total spending has gone up.

The reduction in expenditures on health and education is having a visible impact in Honduras. In the past year, health care workers and teachers have gone on strike over lack of payment of wages, which the government says it is incapable of paying. Further, several government education programs have been scaled back or eliminated altogether. The

⁵ It is spending on the CCT that has driven the increase in this category, as the current government rebranded the program *Bono 10 Mil* and expanded its reach. Although it has undergone various reforms, the CCT in Honduras has existed since 1990, enjoys wide support from all candidates for the November 2013 presidential election, and is funded predominantly by the Inter-American Development Bank, World Bank and the Central American Bank for Economic Integration.

Programa Matrícula Gratis, which helped increase school enrollment by 28 percent from 2005 to 2009 by making enrollment free, was cancelled in late 2012.⁶ Another education program, Merienda Escolar, which provides free meals for students, experienced sharp budget cuts this year.⁷

Unemployment

As GDP growth has slowed, the employment situation in the country has gotten worse as well. The unemployment rate increased from 3.1 percent in 2009 to 4.3 percent in 2011 before coming back down to 3.6 percent in 2012. The situation has gotten significantly worse for those aged 19-29. Given the high-levels of violence and gang membership in Honduras, this is particularly worrying. From 2007-2011,⁸ unemployment for those aged 19-24 increased from 5.4 percent to 9.9 percent. For those aged 25-29, the rate increased from 3.5 to 6.5 percent.

It should be noted that in many developing countries such as Honduras the narrowly defined unemployment rate (excluding underemployment) appears very low, as compared with not only most developed countries but also middle-income countries that have more of a social safety net. That is because of the intense pressure for most people to engage in some kind of economic activity in order to survive. For this reason, the more broadly defined measure of unemployment, which includes measures of underemployment, will generally give a better picture of changes in labor market conditions.⁹

Indeed, there has been a sharp rise in what the Honduran government's National Statistics Institute classifies as "visible" and "invisible" underemployment. "Visible" underemployment measures the percent of workers who are working less than full time but who express a desire to work more hours, while "invisible" underemployment measures the percent that work full time but earn less than the minimum wage.

As can be seen in Figure 7, together these measures of underemployment have increased greatly since 2009. Visible underemployment has increased from just 3.8 percent in 2008 to

⁶ El Heraldo (2012).

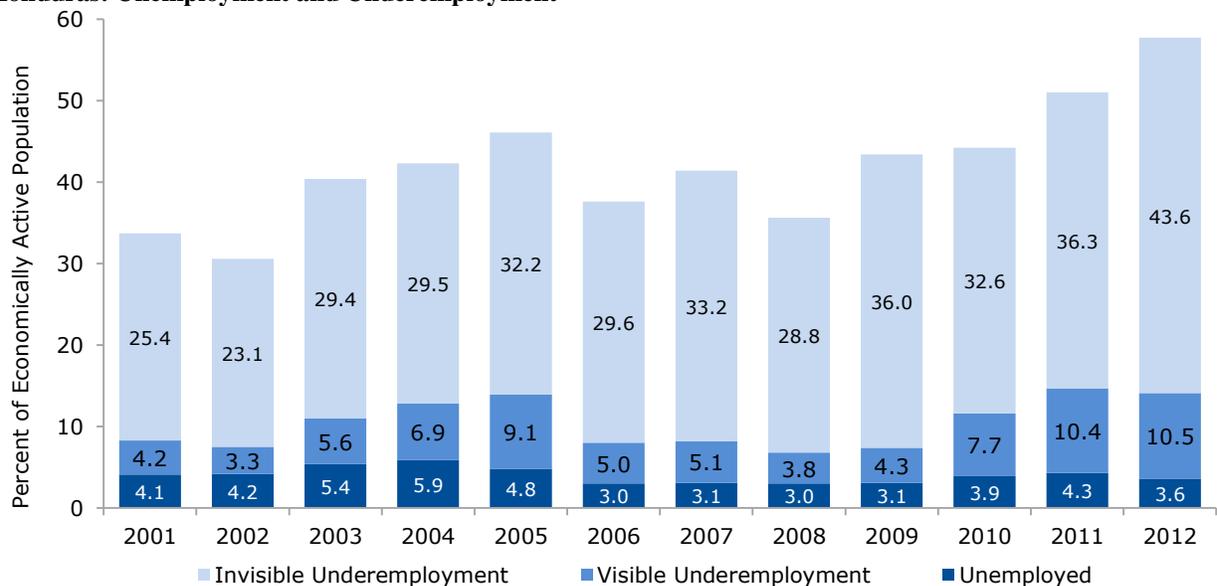
⁷ La Prensa (2013b).

⁸ The latest year for which data is available.

⁹ UNDP (2013).

over 10 percent of the labor force in 2012 while invisible underemployment has increased from 28.8 percent to 43.6 percent.

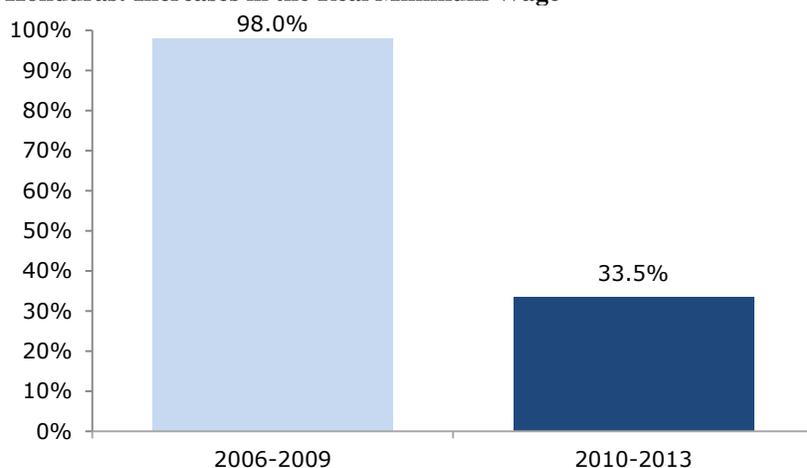
FIGURE 7
Honduras: Unemployment and Underemployment



Source: Secretaría de Trabajo y Seguridad Social.

During the Zelaya administration, the minimum wage was raised significantly, nearly doubling from 2006-2009, as can be seen in Figure 8. Still, the invisible underemployment rate remained relatively stable.

FIGURE 8
Honduras: Increases in the Real Minimum Wage



Source: Secretaría de Trabajo y Seguridad Social, authors' calculations.

The minimum wage has been raised in the years since, albeit at a lower rate; however invisible underemployment has increased greatly. Even as the minimum wage is raised, fewer people are benefitting from the change. A likely contributing factor is a law, passed in November 2010, which makes it easier to hire workers on part-time, temporary employment contracts.¹⁰

Conclusion

Since the 2009 coup and world recession, Honduras' economic growth has slowed to an average annual rate of 3.5 percent from a previous rate of over 5.7 percent. After multilateral debt relief in 2005 and 2007 and three years of very low budget deficits, Honduras was in a relatively strong position to respond to the recession. However the government actually cut spending in both 2010 and 2011 and the public sector became a net drag on growth.

Although Honduras has experienced positive economic growth in recent years, social indicators have worsened considerably. In the two years after the coup, Honduras had the most rapid rise in inequality in Latin America and now stands as the country with the most unequal distribution of income in the region.

Poverty and extreme poverty, after experiencing sharp declines during the Zelaya administration have both increased significantly. Unemployment and underemployment have also both increased, with over 43 percent of the labor force working full time but earning less than the minimum wage. This has occurred as the government continually reduced social expenditures over the last three years.

¹⁰ ALF-CIO (2012).

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