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Honduras Takes Action To Relieve Economic Pressure Points

by LADB Staff

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A faltering economy in the face of substantial GDP growth has led Honduran President Manuel Zelaya's administration to take a series of dramatic actions. Chief among them is a freeze on the prices of basic goods. The general public, strained as it is by rising prices, welcomed the move, which went into effect Nov. 13. Linked to rising consumer prices have been fuel prices, the result of a long spate of speculation in the oil sector that has seen oil reach nearly US\$100 a barrel in recent days.

On the oil front, presidential legal advisor Enrique Flores Lanza told reporters earlier in November the administration had asked congressional authorization to import bunker fuel from Petrocaribe, the Venezuelan initiative that provides fuels to countries in need under preferential terms (see NotiCen, 2006-03-30). The bunker fuel, a heavy fuel, is to be used in power generation.

In Honduras, more than half the electrical generation comes from oil-fired or thermo plants. The state power company said that, as of September, electricity output for the year was 62.8% thermo, 34.9% hydro, and 2.2% biomass. Production reached 4.72 TWh (terawatt hours).

On Nov. 28, the Honduran Foreign Ministry announced that it had concluded the final steps to start the Venezuelan product flowing. It will import from Petrocaribe 100% of its bunker fuel and 30% of its diesel and gasolines. The rest will be acquired from the traditional sources, the multinational oil companies.

Minister of the Presidency Yani Rosenthal took pains to announce that the Venezuelan government "has placed no conditions" on the deal, and the people "should feel secure that we are going to negotiate a treaty that is good for Honduras." It may not have been the people of Honduras who needed the assurance.

US Ambassador Charles Ford took the opportunity to announce that his government was following the process with great interest but took the position that Honduras had the right to make its own decisions. Still, there was a bit of edge to Ford's statement. "This will be your decision," he said, "whether or not it is worthwhile to pay a little higher price to finance the fuel, but it is a subject that you as a people and the institutions will have to analyze and evaluate."

According to reports of the contracts between the countries, the deal would seem well worth it. It leaves in place the advantages to Honduras of both the Pact of San Jose and the Acuerdo Energetico de Caracas, while requiring 60% payment up front and 40% amortized after a two-year grace period for 23 years at 1% annual interest.

US payback for not toeing the line?

Elsewhere on Honduras' economic horizons, the US has not been particularly helpful. The country relies heavily on remittances from citizens living and working in the US, but, in keeping with US immigration policy, or the lack of it, deportations have risen and remittances fallen. According to Valdete Willman of the Scalabrinian Sisters, a group dedicated to working with immigrants and migrants, the number of deportees rose from an already high 24,643 in 2006 to a projected 32,000 or more this year.

Opposition parties interpret the deportations as payback from the administration of US President George W. Bush for Zelaya's close relationship with Venezuela's President Hugo Chavez and Nicaragua's President Daniel Ortega. Said Deputy Marvin Ponce of the Unificacion Democracia (UD), "We believe that President Manuel Zelaya's visits and talks with leaders who challenge the United States could be the reason for the increase in deportations, especially of those Hondurans who have already lived and worked several years in the country." Hondurans in the US send home more than US\$2 billion each year to families, almost 9% of whom have no other income. Remittances account for 28.2% of Honduras' GDP, according to the Economic Commission for Latin America and the Caribbean (ECLAC).

Honduras Central Bank president Gabriela Nunez disputes that the fall in remittances is the result of deportations and instead attributes it to economic improvements brought about by the Central America Free Trade Agreement (CAFTA). "We have observed that when the GDP grows, emigrants send less money to their relatives in Honduras. Furthermore, inflation levels have been stable during the whole year at 6%. This is also favorable," she said. There has been GDP growth of 6.5%. Nonetheless, says economist Martin Barahona, six in ten Hondurans live in poverty, and "the damage of the massive deportations is noticeable."

The decrease in popular spending power to meet basic needs was sufficiently noticeable for the government to impose price controls. The Nov. 13 move freezes the prices of 19 basic consumer products at levels recorded on Oct. 1. The freeze is set to end Jan. 1, 2008. Goods included on the list are staples rice, beans, eggs, wheat flour, corn, milk, oil, lard, margarine, sugar, coffee, salt, spaghetti, chicken, boiled ham, tomato puree, and bottled water. Just before the freeze, prices of some of these items were posting significant daily hikes. Corn, chicken, rice, eggs, and wheat flour rose more than 50% and lard more than 100% in October alone.

When Zelaya assumed the presidency in January 2006, the cost of the basic basket of commodities was US\$213. Now it is US\$252. The Instituto Nacional de Estadística (INE) pegged the increase for the 30 items in the basket at 15.58%. The Consumer Price Index (CPI) is up 5.5% from January to September.

The Congress is generally supportive of the measure. Congressional president Roberto Micheletti called it "the only way to protect Honduran families." Some deputies think the government waited too long. "If the government had chosen Sept. 1, many of the prices would have been set at their previous levels, whereas now it's a bit late as many prices have already risen by 100%," said Cesar

Ham of the UD. While many view price freezing as a relic of the past, the country's Constitution (Article 3) mandates it, designating the Ministry of Industry and Trade to control store prices and prevent unjustified price hikes.

However, said Minister and National Commissioner for Science and Technology Myriam Elizabeth Mejia, "We do not have the necessary teeth for the task, we lack sufficient human resources." Jorge Bueso Arias of the private Banco del Occidente voiced the perspective of those who see the measure as counterproductive. "In the long run, price controls don't work, except in emergencies. You have to think of producers who need to sell their goods for a profit in order to protect themselves when prices are low. It is important to pay the farmers a fair price for their harvests," said the banker.

Not everyone in the business community is against the government's action. Adolfo Facusse, president of the Consejo Hondureno de la Empresa Privada (COHEP) supported the decree because it "combats the wave of speculation unleashed by monopolists."

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