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"The Impact of the International Monetary Fund in Honduras"

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ABSTRACT

The objective of this thesis is to examine the intricate relationship between Honduras and the International Monetary Fund (IMF), evaluating the multi-dimensional impacts of IMF interventions on the nation's economic and social landscape. The study begins by providing a thorough overview of the IMF, detailing its historical origins, objectives, governance structure, and core functions, such as policy advice, financial assistance, and capacity development. These insights lay the foundation for understanding how the IMF has evolved from its inception under the Bretton Woods system to its current role in addressing global economic challenges, particularly in developing countries.

In order to pave the way to the final objective of the thesis, the focus then shifts to the background of Honduras, a Central American nation with a long history of economic vulnerability, political instability, and external dependencies. The socio-economic profile of Honduras reveals deep-rooted issues, including high poverty levels, severe income inequality, reliance on remittances, and an economy heavily based on low value-added sectors like agriculture. These structural challenges are compounded by persistent governance issues, corruption, and political instability, which have often led to hindered development efforts and even a military coup. The thesis also delves into the influence of external actors, especially the United States, in shaping Honduras' political and economic policies, further contextualizing the country's reliance on international assistance.

Subsequent sections of the research explore the broader role of the IMF in Latin America and Central America, outlining key interventions and their socio-economic repercussions. This regional perspective helps contextualize the IMF's specific involvement in Honduras. The analysis covers critical periods, such as the Latin American debt crisis of the 1980s, known as the "Lost Decade," and how the IMF's conditionality measures influenced economic policies. The discussion highlights the dual nature of IMF programs: while aiming for macroeconomic stability and growth, they often entail strict conditions that can lead to austerity measures, social upheaval, and public dissatisfaction. The thesis underscores that these measures frequently prioritize fiscal responsibility at the expense of social welfare, posing significant risks to vulnerable populations.

In examining the specific case of Honduras, the study evaluates the timeline of IMF interventions, from structural adjustment programs of the late 20th century to recent responses during crises, such as the COVID-19 pandemic and natural disasters like Hurricanes Eta and

Iota. The analysis reveals that while IMF support has sometimes helped stabilize macroeconomic indicators, the associated conditions have often deepened socio-economic challenges, such as poverty and inequality, because of generalistic reforms. The thesis reviews the economic reforms mandated by the IMF, exploring their short- and long-term consequences on public services, employment, and economic resilience. Furthermore, it reflects on how these reforms interact with the existing socio-political context of Honduras, characterized by weak institutions and limited capacity for sustainable policy implementation.

The research concludes with a critical assessment of the successes and limitations of IMF policies in promoting sustainable development in Honduras. The findings suggest that while the IMF's efforts have supported financial stability and crisis management, they have frequently fallen short in fostering long-term, inclusive growth. The thesis recommends a rethinking of the IMF's approach, specially towards developing countries, advocating for more flexible, country-specific programs that prioritize social welfare alongside economic stabilization. It suggests that deeper collaboration with local governments and civil society, combined with enhanced transparency and accountability, could improve the effectiveness of future interventions.

Chapter 1 “The International Monetary Fund (IMF) - a General Overview”

Chapter 1: The International Monetary Fund (IMF) – A General Overview

Before we dig into the impact of the International Monetary Fund (IMF) in Honduras, we have to understand in essence what is this organization's purpose. This chapter offers a foundational understanding of the IMF, tracing its historical origins, governance, and evolving role in the global economy. Beginning with the IMF's creation under the Bretton Woods system, the chapter explores how it was designed to promote international monetary cooperation and financial stability against many crises. It then delves into the organization's structure, highlighting the roles of its key governing bodies and the decision-making processes that guide its operations.

Following this, we look into the IMF's primary functions: policy advice and surveillance, financial assistance, and capacity development. Each of these functions is examined in detail, providing insight into how the IMF monitors member countries, offers financial support during crises, and helps build economic capacity through technical assistance and training. The chapter also explains how the IMF is financed, with a focus on member quotas, bilateral borrowing agreements, and the role of Special Drawing Rights (SDRs) in the global financial system.

Finally, this chapter explores the evolution of the IMF, focusing on its adaptability in response to global economic changes. From its initial role overseeing fixed exchange rates to its current involvement in economic reforms and crisis management, the IMF has continually adapted to new challenges. The chapter concludes by examining how the IMF's functions have expanded alongside globalization, with attention to its role in facilitating trade, capital flow, and economic integration.

This overview sets the stage for the subsequent chapters, where the focus will shift towards analyzing the IMF's impact in Honduras, and evaluating the successes and challenges of its interventions in a broader context.

1.1 What is the IMF and how is it structured?

The IMF was founded in July 1944 as part of the Bretton Woods system, which aimed to promote international monetary cooperation and prevent significant devaluation of currencies. The original 44 member countries sought to enhance international economic cooperation and avoid repeating disasters like the Great Depression in the 1930s. The IMF works towards

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fostering global monetary cooperation, securing financial stability, facilitating international trade, promoting high employment and sustainable economic growth, and reducing poverty around the world (*About the IMF*, n.d.).

The IMF is an international financial organization which is now composed of 190 member countries. It is governed by and accountable to its members and its purpose is to achieve sustainable growth and prosperity for all countries involved. Its governance structure is designed to ensure accountability and representation among its member countries. The IMF operates through 18 departments that handle various aspects but fundamentally, it has three governing bodies: the board of governors, the executive board, and the managing director. The board of governors is the highest decision making body which contains one governor from each member country and has an annual meeting to discuss policies and operations. The executive board is responsible for the daily operations and it consists of 24 executive directors who represent the member countries to ensure the implementation of their policies. Lastly, the managing director serves as the head of the IMF and is elected by the executive board.

1.1.2 Structure and Governance of the IMF

The IMF is governed by its member countries, currently totaling 190 as of 2024. The highest decision-making body of the IMF is the Board of Governors, which consists of one governor and one alternate governor from each member country. Typically, these governors are the finance ministers or central bank governors of the member countries. The Board of Governors meets once a year, and its responsibilities are big picture tasks such as approving new members or changes in quotas.

The day-to-day operations of the IMF are overseen by the Executive Board, which is composed of 24 Executive Directors representing the member countries or groups of countries. The Executive Board is responsible for making decisions on financial arrangements, policies, and operational issues. The Managing Director, who is appointed by the Executive Board for a renewable five-year term, heads the IMF’s staff and serves as the chair of the Executive Board (*About the IMF: Governance Structure*, n.d.). The IMF's headquarters is located in Washington, D.C., and it employs a diverse staff of economists, financial experts, and other professionals from around the world.

It was not always structured and working in this way. Like any big and long lasting organization, the IMF had to evolve with its surroundings. The world is in constant change and

with it, the global economy. The IMF’s role needed adaptations in order to survive and serve its purpose.

1.2 Functions of the IMF

The primary objectives of the IMF are promoting international monetary cooperation, securing financial stability, and supporting economic growth. In order to achieve these things, the IMF performs several key functions that are vital, such as: policy advice, financial assistance, and capacity development.

1.2.1 Policy Advice and Surveillance

Policy advice is precisely what it sounds like. The IMF monitors the economic and financial policies of member countries and advises them. It is their job to identify potential risks and recommend appropriate adjustments to their policies in order to sustain economic growth and promote financial stability. It is also important to consider that the problems or policies of a country can affect others, and the IMF can facilitate international cooperation within all their member countries. This is done through surveillance or monitoring which can focus on individual countries (bilateral surveillance) or the global economy (multilateral surveillance). The country-level surveillance involves discussions with the country’s government, central bank, and other important actors, which mainly focus on exchange rate, monetary, risks, policies, and reforms. After completing the discussions and evaluations, the IMF presents a report to the Executive Board which after approval is presented to the country’s authorities. On the other hand, global surveillance involves monitoring regional and global economic trends and analyzing the impact of all member country policies on neighboring countries and the global economy (*IMF Policy Advice*, n.d.).

1.2.2 Financial Assistance

Financial assistance involves providing loans and concessional financial assistance to member countries experiencing actual or potential balance of payments problems. Unlike banks, the IMF does not lend for specific projects unless a country has been hit by a crisis or is about to be hit by one. Loans from the IMF are faster, more flexible, and with lower interest rates than those from other lending institutions. Crises are complex and can be caused by different factors which can be divided into domestic and external factors. Domestic factors are mainly those who are caused by inappropriate decisions that are taken by the authorities, like unsuitable fiscal/monetary policies, fixed exchange rates, and weak financial systems. Conversely,

“The impact of the International Monetary Fund (IMF) on Honduras”

external factors are those that happen without the control of the country such as natural disasters, pandemics, or large swings in commodity prices (*IMF Lending*, n.d.). Often, crises can cause other crises and countries can face more than one crisis at a time. In the face of the crises, the IMF’s job is to respond with financial assistance to protect the most vulnerable and set the stage for economic recovery.

1.2.3 Capacity Development

The IMF provides capacity development which is basically technical assistance and training which is tailored to each country’s specific needs upon request. This training helps countries in many things, including: building effective economic institutions, increasing economic stability and growth, and meeting their Sustainable Development Goals. Essentially, the IMF will review a country’s challenges and will work with their officials to help them overcome these challenges through personal assistance and training. The IMF offers support in areas such as public finance management, monetary and exchange rate policies, financial sector supervision, and statistics.

1.3 How is the IMF financed?

The money that is loaned to members comes as well from member countries. Primarily, the IMF is financed through three sources: Member Quotas, Bilateral Borrowing Agreements, and New arrangements to Borrow. The IMF measures its resources in SDRs and while most resources are set aside for lending, they may be used for other purposes such as operational needs, crisis contingency, and special programs. As seen in Figure 1.1, as of mid-December 2023, the total resources of the IMF were about SDR 982 billion of which SDR 695 billion are meant for lending capacity (*Where the IMF Gets Its Money*, n.d.).



Figure 1.1 - IMF Resources - Source: (Where the IMF Gets Its Money, n.d.)

1.3.1 Special Drawing Rights (SDRs)

SDRs were created in 1969 and play an important role in providing liquidity to the global economic system. The SDR is an international reserve asset created by the IMF to supplement its member countries' official reserves. SDRs are not currency themselves or a claim on the IMF, but rather a potential claim on the freely usable currencies of IMF members and they provide liquidity (*Special Drawing Rights*, n.d.).

They are distributed among members through a process called a General Allocation. They are distributed in proportion to the quota shares of each member. The value of the SDRs is updated daily based on the world's major trading currencies: the US dollar, the Euro, Chinese Renminbi, Japanese Yen, and UK Pound Sterling.

Countries can use SDRs to meet balance of payment needs, add to their own reserves, pay for IMF loans or quota increases, or stabilize their own economies, especially in times of crisis, by exchanging them for real currency or using them to settle debts with other countries or the IMF.

1.3.2 Member Quotas

Member quotas are the primary source of IMF funding and it comes from its member countries who contribute based on their economic size and strength which reflects their position in the global economy. The larger a country's quota, the more it contributes to the IMF's financial pool and the more power it will have in IMF decisions (*IMF Quotas*, n.d.). Quotas also

determine the maximum amount of loans a member can obtain. Quotas are periodically reviewed and adjusted according to changes in the global economy.

1.3.3 New Arrangements to Borrow (NAB)

Increases in the IMF quotas

Date	Increase in quotas (%)
February and April 1959 (Special Review)	60.7
1965 (Fourth General Review)	30.7
1970 (Fifth General Review)	35.4
1976 (Sixth General Review)	33.6
1978 (Seventh General Review)	50.9
1983 (Eighth General Review)	47.5
1990 (Ninth General Review)	50.0
Tenth General Review	No increase proposed
1998 (Eleventh General Review)	45.0
2003 (Twelfth General Review)	No increase proposed

II Figure 1.2 - Increases in IMF Quotas - Source: (Woods, 2006)

The New Arrangements to Borrow constitute a second line of defense in case quotas fall short. It is a multilateral borrowing mechanism that provides the IMF with additional resources. Through NAB, certain member countries and institutions will lend additional resources to address challenges to the international monetary system (*Where the IMF Gets Its Money*, n.d.).

1.3.4 Bilateral Borrowing Agreements (BBAs)

The Bilateral Borrowing Agreements are another way for the IMF to borrow extra money, but instead of getting funds from a group of countries under a formal agreement like the NAB, there will be a one-on-one negotiation per loan. This makes agreements more flexible, since negotiations are not done with big groups of countries (*Where the IMF Gets Its Money*, n.d.). These are considered the last resort source of funding and are used when the IMF needs additional funds beyond the NAB and quotas.

1.4 Evolution of the IMF

Initially, the IMF's primary role was to oversee a system of fixed exchange rates and provide short-term financial assistance to countries facing balance-of-payments crises. This was agreed as part of the Bretton Woods system which was the first system to establish the rules for commercial relations among different countries and it was used to control the value of money between them by fixing the exchange rates. Disasters such as the Great Depression and the disruption of the global economy by World War II, caused the IMF to focus on stabilizing the economy; however, in its early years, the IMF's operations were limited by its new structure and the global economic environment (Southard, 1979).

Throughout its history, the IMF has been deeply involved in managing international currency crises. Early examples include the devaluation crisis of 1949, where several European countries were forced to devalue their currencies. In these situations, the IMF's role was often limited to approving the devaluations after the fact. However, as the organization matured, it became more proactive in its involvement, particularly during the crises of the 1960s and 1970s, where the IMF played a crucial role in stabilizing currencies through financial support and policy advice.

1.4.1 Conditionality

The initial intention of the IMF to provide easy access to financial assistance was preliminary challenged by “conditionality”, which was a strict approach which involved harsh conditions for countries requesting to withdraw IMF resources. Conditionality refers to the economic policies and reforms that member countries must implement to receive financial assistance from the IMF. The United States played a significant role in tightening the conditions but it led countries to use minimal resources and created a perception that the IMF was not serving its purpose because of its bureaucratic policies.

It was not until the 1950s that “The Rooth Plan” , one of the significant developments in the IMF's evolution, was introduced. The plan proposed increasing the IMF's capacity to provide short-term financial assistance to its member countries by revising and enhancing their mechanisms which made them more responsive to the members' needs (Pressnell, 1997). This plan emphasized a more constructive and member-focused approach by aiming to provide a practical basis for using IMF resources, balancing the need for both stability and flexibility.

1.4.2 Adapting to a Changing Global Economy

The initial system with fixed exchange rates led to numerous challenges, especially as countries struggled to maintain currency parities. A significant evolution occurred when the IMF had to respond to these challenges, particularly after the collapse of the Bretton Woods system in the 70's, which marked a shift from fixed to floating exchange rates. The IMF adapted to its new role, and this transition was formalized in 1978 when the Articles of Agreement were amended (Southard, 1979). It was agreed that the IMF would provide firm surveillance of exchange rate arrangements, which could now be freely chosen by each member country.

During this period, the IMF also expanded its financial resources by increasing member quotas and the introduction of Special Drawing Rights (SDRs), which are an international reserve asset created to supplement its member countries' official reserves.

Most changes that the IMF has implemented through time have been necessary to enable the IMF to respond effectively to all types of crises. The IMF has needed to show resilience and flexibility to overcome challenges. Including the oil crises of the 1970s and the subsequent economic challenges faced by many developing countries.

The evolution of the IMF reflects its ability to adapt to changing global economic conditions. From its initial focus on maintaining fixed exchange rates to its current role in overseeing a system of floating rates and providing financial assistance tied to economic reforms, the IMF has become a central institution in the global financial system. Its history demonstrates a trajectory of increasing involvement in member countries' economic policies.

1.4.3 Versatility in Economic Crises

Throughout history, the IMF has shown a great ability to adapt to changing global economic circumstances, a characteristic that continues to be evident today. The IMF's roles have evolved as global circumstances have changed, often expanding in response to the unique challenges of each period. In the 1980s and 1990s, for example, the IMF's involvement deepened during the debt crises in Latin America and Asia (Reinhart & Trebesch, 2016). During this time, the organization provided longer-term assistance and introduced structural adjustment programs aimed at stabilizing economies.

In the 2000s, the IMF underwent significant reforms following criticism over its handling of the Asian financial crisis. The organization sought to become more flexible in its approach, placing a stronger focus on poverty reduction, transparency, and engagement with civil society

through initiatives such as the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI). The global financial crisis of 2008 marked yet another critical shift for the IMF, causing it to increase its financial resources, modernize its lending tools, and take on a more prominent role in global financial surveillance (Reinhart & Trebesch, 2016).

More recently, the IMF has been involved in addressing the economic challenges posed by the COVID-19 pandemic, providing unprecedented levels of financial assistance to countries to help them cope with the health crisis and its economic fallout (Reinhart & Trebesch, 2016). The IMF has also expanded its focus to include issues such as climate change, inequality, and digitalization, recognizing their growing importance in global economic stability. These transformations highlight the IMF's adaptability, which has been essential for its continued relevance and survival in an ever-changing global economy. Even if these programs were often controversial due to their social impact, leading to criticism from various sectors.

1.4.4 IMF's Role in Globalization

Globalization is a term used to describe the process by which the world's different countries are increasing communication and interdependence amongst themselves. Globalization can be political, economical, technological, social, and cultural. In our context, we will focus on the increasing interconnectedness of economies, which has reshaped global trade, finance, and even politics. The IMF has helped integrate a large number of countries into the world economy by requiring governments to open up to global trade, investment, and capital. They have backed up with their actions the idea that globalization is a solution to challenges that present against the world economy.

One of the main drivers of globalization is the facilitation of international trade, which the IMF has achieved by guaranteeing countries have access to financial resources and regulating exchange rates. Another important aspect of their activity has been supporting economic integration, as they have pushed for laws that lower trade barriers, boost investment, and facilitate the free flow of wealth. In an effort to facilitate cross-border investment, the IMF has also encouraged nations to liberalize their financial markets and draw in foreign capital (Woods, 2006).

The IMF's influence extends beyond mere financial assistance; it also shapes the policy landscape of borrowing countries through conditionality attached to loans. These conditions often require structural adjustments that align with free market economic principles, which argue are essential for fostering sustainable growth and stability.

Another significant aspect of the IMF's role in globalization is its function as a crisis manager. The organization has been called upon to intervene during financial crises, providing emergency funding to stabilize economies and prevent aggravation. The global financial crisis of 2008 serves as a prominent example of this role. As countries faced severe economic downturns, the IMF responded by tripling its lending capacity and reforming its policies to allow for quicker disbursement of funds. This response was essential in addressing the immediate needs of affected nations and rebuilding trust in the international financial system.

The IMF's approach to development has evolved in response to criticism regarding its impact on borrowing countries. Recognizing the need for more inclusive growth strategies, the organization has begun to emphasize social spending and poverty alleviation in its programs. This shift is indicative of a broader trend within international financial institutions to prioritize human development alongside economic stability.

Conclusion

In summary, the IMF plays an important and evolving role in the world economy. From its origins in the Bretton Woods system to its current role in promoting international monetary cooperation and financial stability, the IMF has remained a central player in managing global economic challenges. The discussion on the IMF's governance, with its multi-tiered decision-making bodies, highlights the complex structure that ensures accountability and representation among its 190 member countries.

The chapter has also examined the IMF's core functions, emphasizing its role in offering policy advice, financial assistance, and capacity development. These functions are vital in supporting countries through economic challenges, while the institution's financing mechanisms ensure it remains equipped to respond efficiently to crises. Additionally, the IMF's adaptability over time, especially its shift from fixed to floating exchange rates and its deeper involvement in economic reforms, underlines its resilience in an ever-evolving global landscape.

As we move into the following chapters, this foundation will be essential in understanding the IMF's specific impacts on countries like Honduras. By exploring its broader role in globalization and crisis management, we can better assess the successes and limitations of its interventions in developing economies.

Chapter 2: Honduras - Background

This chapter focuses on establishing the country's background for understanding the IMF's role in it. It explores the historical evolution of Honduras, particularly its socioeconomic and political conditions. As we move into the following chapters, this foundation will be essential in understanding the collaboration between Honduras and the IMF.

Honduras has a long and turbulent history, shaped by colonization, political instability, and economic underdevelopment. After gaining independence from Spain in 1821, Honduras, like many other Latin American countries, faced challenges in nation-building. Early political instability, civil wars, and territorial disputes with neighboring countries, such as El Salvador and Nicaragua, weakened its ability to establish strong governance. Throughout the 19th and early 20th centuries, Honduras was characterized by internal power struggles between conservative and liberal factions, leading to frequent coups and instability. The country also became a hub for U.S. banana companies like United Fruit, which wielded significant economic and political influence, exacerbating land inequality. The 20th century brought a series of reform attempts, notably in the 1950s and 1970s, aimed at addressing land distribution, labor rights, and government accountability (Norton, 2022). However, these efforts were often met with resistance, leading to further instability, including military interventions and coups.

Political instability also characterized much of Honduras's modern history. Military coups, such as the 2009 coup against President Manuel Zelaya, underscored the fragility of its democracy. This instability hindered long-term development planning and led to economic mismanagement, corruption, and weak institutions, making it vulnerable to external influences like the International Monetary Fund (IMF), whose interventions will be analyzed in the next chapters.

2.1 Socio-Economic Context

Honduras is a Central American nation that currently has a population of over 10 million people, of which, according to the latest estimate from the United Nations Economic Commission for Latin America and the Caribbean, 67.8% are living in poverty and 34.4% are living in extreme poverty. It is considered a poor country on top of also having one of the most unequal populations in the world in terms of amount of income earned. This is evident in the fact that the top 1% of highest earners receive approximately 30% of the total income in the country (Del Carmen et al., 2024). Figure 2.1 illustrates income inequality, where the wealthiest

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segments of the population earn exponentially more than others. Over time, the gap between the top earners and the rest has only widened, reflecting the deep structural economic disparities that contribute to the country's high poverty rates.

Inequality and poverty are one of the drivers of violence in Honduras. In regions where legal employment and education prospects are scarce, many young people in Honduras view violence as an opportunity and a means to survive and improve their situations out of economic deprivation. In turn, Honduras has been one of the top five countries in the world for intentional homicides for over 20 years (Williams & Castellanos, 2020). While the homicide rate has decreased in the last decade, it is still among the most violent countries in the Western Hemisphere. Sequentially, the pervasive violence has devastating effects on the economy, deterring foreign investment, reducing tourism, and increasing security costs. This economic

	2012	2014	2016	2019
Top 10%	167 [19]	178 [19]	187 [19]	213 [20]
Top 1%	504 [57]	526 [57]	554 [55]	590 [56]
Top 0.1%	2,031 [232]	2,166 [235]	2,905 [288]	3,004 [285]
Top 0.01%	16,357 [1,866]	19,357 [2,100]	26,423 [2,616]	33,582 [3,182]
Top 0.001%	385,428 [43,961]	397,163 [43,090]	567,116 [56,147]	642,270 [60,862]

Note: This table presents the average income for each quantile, across years, in local currency (1,000s Lempiras) in the main line and in 1,000s USD ppp in brackets. These averages are for small bins, the size of which vary (top 10% refers to those between the top 10% and 9%; top 1% between the top 1% - 0.9%; top 0.1% between the top 0.1% - 0.09%; top 0.01% between the top 0.01% - 0.009%; and top 0.001% for the highest 0.01% earners. These figures refer to the final distribution of income, after adjusting for national accounts' aggregates.

III Figure 2.1 - Income Levels Adjusted to National Accounts - Source: (Del Carmen et al., 2024)

stagnation further prolongs poverty, creating a vicious cycle in which violence and poverty feed off each other.

However, one of the main determinants of a country's success and potentially the root problem of all other issues discussed, is education. Education plays a significant role in driving economic

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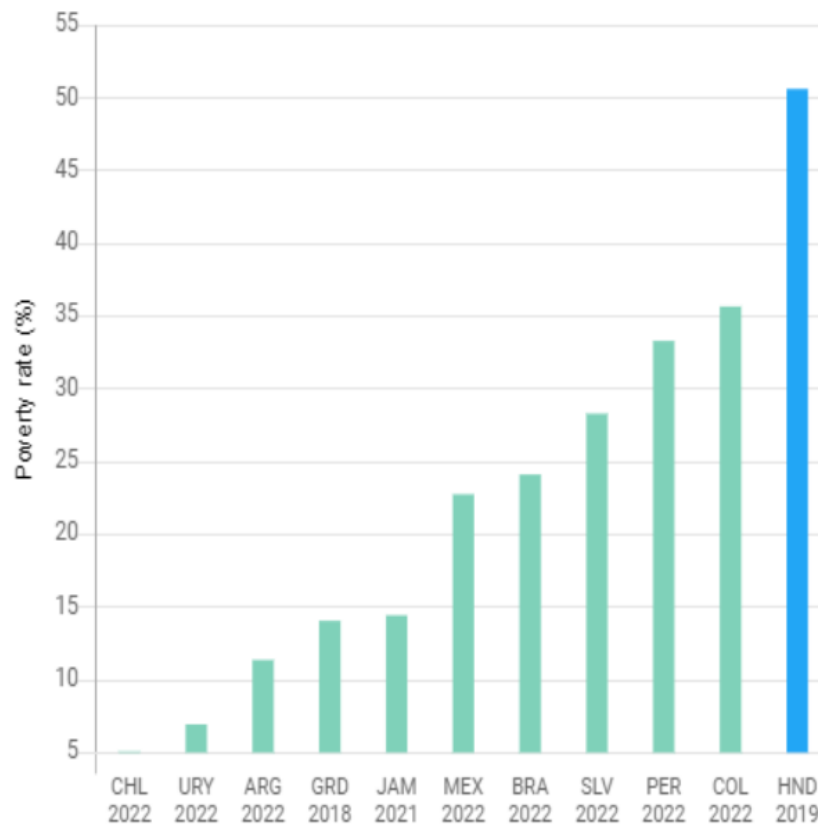
growth, as it contributes to the development of human capital, which in turn fuels productivity and innovation. Research has shown that improving education quality can have a direct impact on GDP growth. Many Honduran schools lack basic infrastructure like access to electricity, water, and internet connectivity, especially in rural areas, further limiting students' learning opportunities (Villela & Paredes, 2022). With an average of just four years of schooling per person, Honduras is far behind global standal, evidencing the high dropout rates. Additionally, around 12% of the population remain illiterate, with literacy challenges being even more pronounced among older generations and rural communities (Adelman et al., 2017). Honduras faces significant challenges in its education system, which have considerable implications for the country's economic and social development. For Honduras, investing in education could break cycles of economic stagnation.

2.1.1 Economic Activity

Honduras' economy is often dependent on factors that can easily fluctuate, which causes the economy itself to be unstable. Some of the factors are exogenous, but most of the blame can be taken by factors caused endogenously. Firstly, the country lives under constant political instability and has made questionable public policy choices. Additionally, the economy is heavily dependent on low value-added sectors such as agriculture and basic manufacturing production. These sectors do not undergo much processing, resulting in lower profit margins compared to high-tech or industrial goods. This leads to the economy being conditioned by key trading partners and the inflow of remittances. Honduras is heavily reliant on imports which means that they depend on the performance of other countries it trades with, so if those key trading partners experience economic downturns, the country's economy will most probably suffer as a result. The other factor, being remittances, means that many Hondurans living abroad send money back home and this inflow of remittances is a crucial source of income for the local economy. Additionally, despite being a country that is often exposed to extreme weather events like hurricanes, droughts, and floods, it is not prepared to strive under these conditions which makes it a country that is particularly susceptible to external shocks.

All of these factors contribute to the fact that over 50% of Hondurans are living on less than U.S\$7 a day, or \$210 monthly. As seen in Figure 2.2, this is an alarming percentage of people, when seen against the percentages in comparable Latin American countries.

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IV Figure 2.2 - Poverty Rate Comparison - Source: (World Bank Poverty and Inequality Platform, 2022)

Even though Honduran economy has a history of being subsistent in agricultural work, in the last two decades, it has shown a shift to increase jobs in the service sector. However, these service sector jobs are persistently highly informal and about 80% of total workers are working in the informal job sector. These are jobs that can be both legal and illegal, that exist outside of the formal economy (neither taxed nor monitored by any form of government) and are often characterized by low wages, limited job security, and lack of legal protection (Michel & Walker, 2020). Common examples of informal jobs include street vendors, domestic workers, and black markets.

Another important issue in Honduras, are polemic industries, particularly the ones related to extractivism, which is the removal of raw materials and natural resources for export. In Honduras mining and palm oil production have generated short-term economic gains, particularly in terms of foreign investment and employment creation in isolated sectors. However, these gains are often outweighed by significant long-term consequences. Extractivism in Honduras has triggered environmental destruction, deforestation, and water pollution, affecting local livelihoods and leading to widespread discontent among indigenous and rural communities (He Rivera, 2023). Moreover, extractivist practices in Honduras have

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done little to alleviate poverty. Despite initial promises of job creation, these jobs are often low-wage, temporary, and precarious, with no significant improvement in local living standards. Therefore, while extractivism may contribute to GDP growth and attract foreign capital, its broader socio-economic impacts are overwhelmingly negative (Fash, 2022). These effects underline the need for a shift towards more sustainable and inclusive economic models that prioritize environmental conservation and the well-being of local communities over short-term profits.

It is no secret that improving jobs, especially for poor people, should be a priority in Honduras’ development agenda. Honduras, over the last two decades, has a persistent problem of slow growth, high poverty, and poor-quality jobs. Even though the urbanization of the workforce has steadily improved and caused better urban job opportunities, it is still not something to celebrate as their urban share remains below that of neighboring countries. There is hope as it has been shown by trend that urbanization continues to rise, having the challenge, however, of shifting these jobs into better quality jobs in formal services (Michel & Walker, 2020). According to economic statistics from Statista, Honduras is projected to have an employment rate of 64.14% by the end of 2024. With the unemployment rate being 8%, we deduct that there is another problem that is not posed by jobs being available or not, but by the fact that there is a high economic inactivity rate in the country. Economic inactivity refers to individuals of working age who are neither employed nor actively seeking employment and Honduras has an economic inactivity rate of almost 28% of the population.

The socioeconomic challenges of Honduras, deeply rooted in its history and structural inequalities, continue to shape its development path. These challenges are further complicated by political instability and economic policies that have not always favored inclusive growth.

2.1.2 Migration

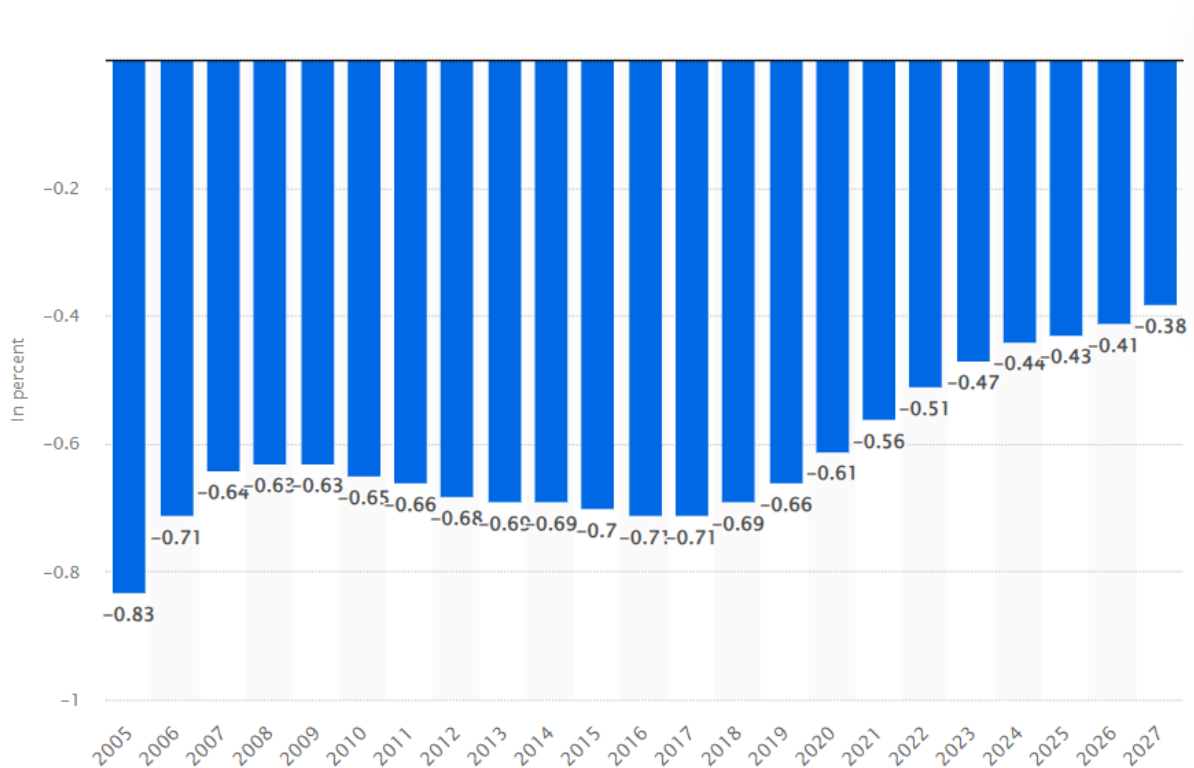
Honduras has long been recognized as a country with significant migration patterns, driven by deep-rooted factors such as poverty, violence, political instability, and climate-related challenges. The country continues to rank among the most violent countries in the world, with persistent gang-related violence, extortion, and organized crime. Despite a recent decline in homicide rates, broader forms of insecurity remain high, particularly in urban centers (Perdomo, 2020). However, migration drivers go beyond these obvious factors. Climate change has increasingly contributed to migration patterns in the region, particularly in rural areas that are susceptible to drought and crop failure. Severe weather events, such as Hurricanes Eta and Iota in 2020, further devastated the country, displacing thousands and exacerbating food insecurity

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(Bermeo & Leblang, 2021). Additionally, the political instability in Honduras, including systemic corruption and weak governance, has created a climate of uncertainty that encourages migration. Many young Hondurans see little future in their homeland, preferring to seek better opportunities abroad even when they are not in immediate physical danger or severe poverty.

Life under these harsh circumstances is not an easy deed and many Hondurans are prompted to seek a way out in search of better opportunities. Nevertheless, in recent years, there is a decreasing trend of migration rates, having reached its lowest point at -0.44% in 2024, and is expected to keep decreasing (Figure 2.3). This trend appears contradictory, given the persistent socio-economic pressures that continue to drive people out of the country. However, this stat by itself does not show the whole picture and it is interesting to understand why there seems to be a contradiction between persisting migration drivers and declining migration rates.

Several factors explain this paradox. One of the primary reasons is the tightening of migration policies in the United States and Mexico. Increased deportations, tougher border security, and stricter asylum policies have made it more difficult for Hondurans to successfully migrate,



V Figure 2.3 - Poverty Rate Comparison - Source: (Economic Commission for Latin America and the Caribbean. Migration Rate in Honduras from 2005 to 2027, 2024)

leading to a reduction in the number of people leaving the country. Moreover, Mexico's expanded role in immigration enforcement, particularly after the U.S. pushed for stronger deterrence measures, has resulted in the containment of migrants in Mexico or their return to

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Honduras (Ruiz Soto et al., 2021). Because of this and the increasingly dangerous road north, many people have opted to move within other nearby countries such as Costa Rica and Panama but the incentives are not the same. Migration may be slowing down but it does not seem to be because life in Honduras is getting easier.

While these are major push factors, the impact of migration on Honduras’s economy is complex, influencing both the macroeconomic landscape and the daily lives of individuals. As mentioned before, remittances from Hondurans living abroad are a major source of income for the country. In 2023, remittances were projected to reach over \$7.3 billion, accounting for more than 28% of the nation’s GDP. These remittances are vital for over 50% of households, providing financial support for education, healthcare, and housing, thereby alleviating some of the poverty-related pressures that drive migration in the first place (Orozco, 2024).

However, this reliance on remittances creates a dual-edged sword. On one hand, it offers a lifeline to those who remain in Honduras. On the other, it fosters a dependency that can weaken the domestic economy. When the primary economic strategy for survival involves migration and remittance-sending, the nation becomes vulnerable to shifts in migration policy or global economic downturns that may disrupt remittance flows. Furthermore, the outflow of labor, particularly among the younger population, leads to a depletion of the country’s human capital. This causes a brain drain effect which is most pronounced among skilled workers and educated youth, who seek better-paying opportunities abroad rather than contributing to the domestic labor market. It is also notable that as more people migrate, the labor market in Honduras faces challenges such as shrinking workforce, and increased pressure on remaining workers which can then lead to reduced job opportunities for those who stay (Høvring, 2021).

Moreover, migration also has social and economic costs. Families often experience prolonged separation, which affects household structures and creates emotional burdens. Economically, the loss of productive workers—especially in key sectors like agriculture and manufacturing—can hinder local development. Even as remittances boost consumption and investment in housing, the absence of a labor force needed to sustain local industries and services presents long-term challenges for sustainable economic growth.

2.2 Political Context

The political landscape of Honduras is shaped by a complex interaction of historical, economic, and social factors. It is characterized by a history of instability, authoritarianism, and external influence. The country has long struggled with political instability, fiscal challenges, and

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governance issues, which have deeply impacted its socio-economic development and relations with international organizations such as the IMF. This section will provide a detailed overview of Honduras' political context, focusing on fiscal challenges, government inefficiencies, corruption, and the country's ongoing struggles with institutional weaknesses.

2.2.1 Political Instability and Governance Challenges

Honduras' political landscape has been marked by instability since the 20th century, with the concept of the "Banana Republic" being central to understanding the country's governance challenges. The term refers to the disproportionate influence of U.S.-based banana companies, which shaped political and economic policies in Honduras throughout the early 20th century. This foreign domination undermined local governance, entrenched inequality, and sowed the seeds for long-term political fragility (León Araya, 2023).

Modern political instability reached its peak with the 2009 military coup that deposed President Manuel Zelaya, disrupting the country's democratic institutions and deepening the country's division. The coup was rooted in disputes over constitutional reforms, and the aftermath saw a weakened political system characterized by electoral fraud, diminished public trust, and the manipulation of democratic processes (Meurs, 2020). This political fragmentation continues to undermine effective governance, with regular protests and widespread disillusionment among the population.

In recent years, political unrest has persisted, with controversies surrounding elections and allegations of fraud. In 2017, President Juan Orlando Hernández secured a contentious second term following accusations of vote manipulation (Boland & Sánchez-Montijano, 2023). The election results sparked nationwide protests and international criticism, further highlighting the fragile nature of Honduran democracy. The frequent political issues have led to weakened public trust in democratic institutions, making it challenging for any administration to implement lasting reforms or tackle the country's deeply rooted fiscal and social issues.

Corruption is a pervasive problem in Honduras, undermining governance and contributing to weak institutions. Transparency International consistently ranks Honduras among the most corrupt nations in the world, with corruption prevalent in key sectors such as law enforcement and the public sector, with public officials frequently implicated in bribery, embezzlement, and drug trafficking. Corruption scandals involving high-ranking officials have significantly damaged public confidence in the government. For instance, the involvement of former President Juan Orlando Hernández, in drug smuggling operations, cast a shadow over the

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government’s credibility both domestically and internationally. He was recently sentenced to 45 years in prison on a US drug conviction which he is currently serving and waiting on appeal (Cohen, 2024).

Efforts to combat corruption, such as the establishment of the Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH), were short-lived. MACCIH was an initiative launched in 2016 by the Organization of American States at the request of the Honduran government, in response to widespread public outcry over corruption scandals. Its goals were to combat corruption and impunity, improve the transparency of public institutions, and strengthen the judicial system. However, despite initial progress, MACCIH was disbanded in 2020 after the government refused to renew its mandate and its dissolution signals the challenges of maintaining momentum in anti-corruption efforts in a political environment resistant to change (Maisonnave et al., 2023).

2.2.2 Fiscal Challenges

Honduras faces severe fiscal imbalances that stem from both structural and cyclical factors. The country’s fiscal policy has long been driven by low tax revenues, high levels of public debt, and a reliance on external aid and loans to finance government spending. The country has a below average tax collection rate in Latin America, exacerbated by widespread tax evasion and a narrow tax base, which predominantly targets consumption rather than income or wealth (*Revenue Statistics in Latin America and the Caribbean 2024*, 2024). This imbalance forces the government to rely heavily on external loans and aid to finance public expenditures.

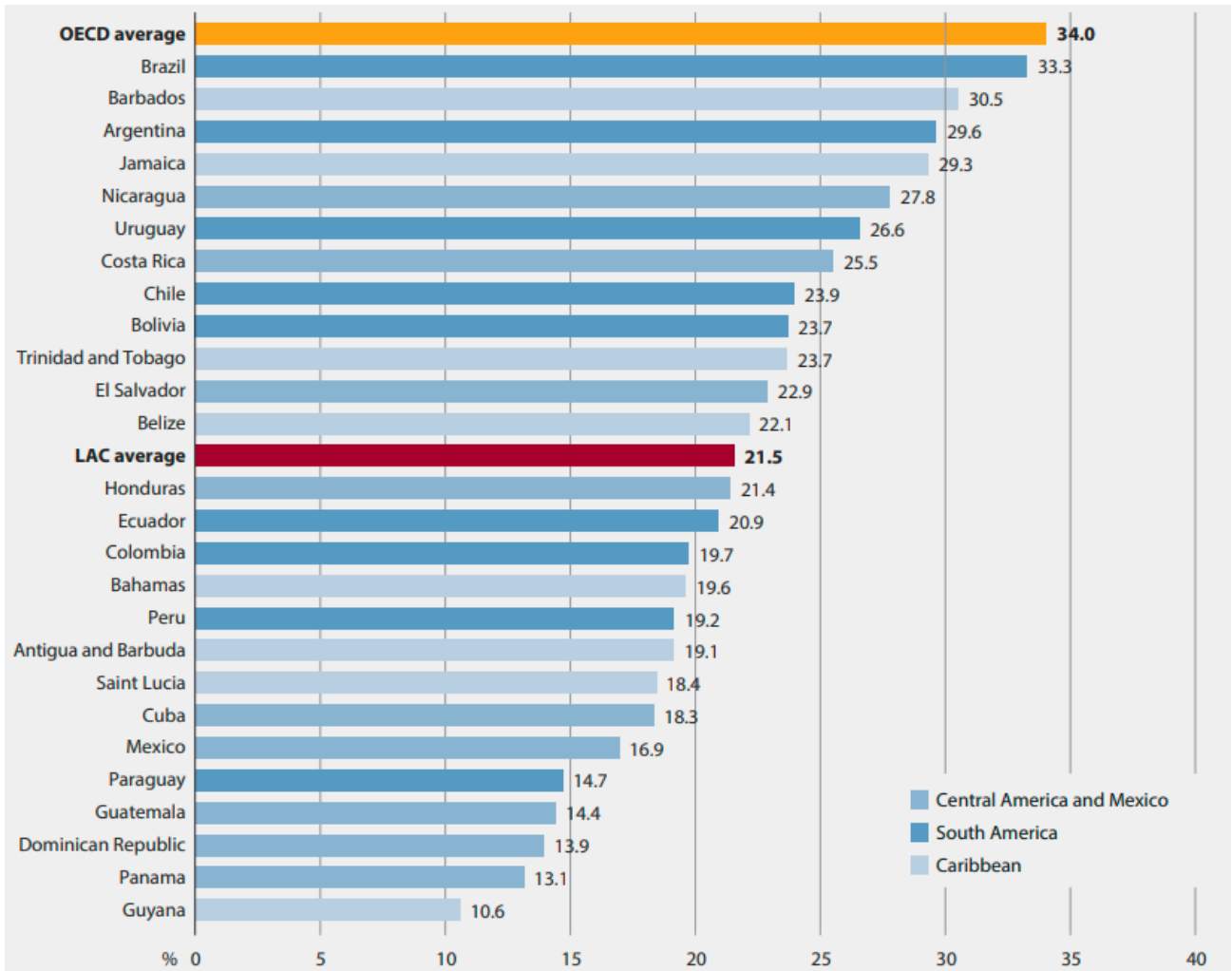
Looking at tax revenues as a percentage of GDP can be an important measure of balance in a country’s economy. Total tax revenue as a percentage of GDP indicates the share of a country's output that is collected by the government through taxes. The ratio provides a useful look at a country's tax revenue because it reveals potential taxation relative to the economy. It also enables a view of the overall direction of a nation's tax policy and international comparisons between the tax revenues of different countries. This ratio should be high enough to ensure the government can finance its spending and according to the World Bank, it is important to maintain it above 15%. As seen in Figure 2.4, Honduras, although below the average in the region, is above the 15% mark and can be considered as a sign of moving towards the right direction.

There have been efforts to increase tax collection through modernization of the tax system and various reforms promoted by the financial authorities. However, when analyzing the evolution

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in the last three decades of the Fiscal Policy in Honduras, the reality is that the levels of collection are kept at low averages, and as a result, the level of social development remains limited. With the current collection levels, public finances are constantly at risk of facing financial problems to solve their obligations to citizens (Castro Mejía, 2022).

Even if Honduras has made progress since the 1990s in supporting stability and growth, and is on the right path by trying to stabilize non-financial public sector government debt, reducing the fiscal deficit, there is still a long path ahead in order to compensate for decades of sluggish



VI Figure 2.4 - Total Tax Revenue as a Percentage of GDP - Source: (Revenue Statistics in Latin America and the Caribbean 2024, 2024)

growth rooted mainly in weak institutional capacity without taking the relevance of other issues discussed (Ulku & Zaourak, 2021). This places Honduras as still one of the smallest economies in Central America.

2.2.3 U.S. Influence

It is critical for this research to understand that Honduras has been a country that has been greatly influenced by external influences as it has been incapable of being self-sufficient. The government on its own has historically struggled to finance infrastructure projects, public services, and social programs without accumulating significant external debt. Public debt has steadily risen over the past two decades and that is one of the reasons why Honduras needs outside help as much as it can get. International actors, particularly the IMF and the United States, play a significant role in shaping Honduras' political and economic policies.

The influence of the United States on Honduras' economic and political landscapes has been profound and multifaceted, shaped by historical interventions, foreign aid, and immigration policies. The U.S. has historically viewed Honduras as a critical ally in Central America, especially during the Cold War, when it served as a base for U.S. military operations aimed at countering leftist movements in the region. The United States' influence in Honduras' political environment was particularly evidenced during the 2009 coup that was supported by U.S. interests, which sought to maintain a political climate favorable to American economic and strategic goals in the region (Menjívar & Walsh, 2017). Additionally, Honduras continues to host a U.S. military presence, cooperating on anti-drug efforts that underscore the ongoing strategic importance of the country to U.S. security policy in the region (Meyer, 2014). This historical context has laid the groundwork for ongoing U.S. influence in Honduran politics. Beyond economic and military collaboration, U.S. policy in Honduras also focuses on strengthening democratic governance and promoting the rule of law. U.S. support has been directed towards improving human rights conditions and fostering long-term security stability in the region (Meyer, 2014). This demonstrates that U.S. influence operates not only through direct economic and military aid but also through efforts to shape political institutions in Honduras.

Economically, U.S. foreign aid has played a significant role in shaping Honduras' development policies. The U.S. is the largest donor of foreign aid to Honduras, which has been directed towards various sectors, including health, education, and infrastructure (Rod & Himmer, 2021). However, the effectiveness of this aid has been questioned, as it often aligns with U.S. strategic interests rather than addressing the root causes of poverty and inequality in Honduras. The economic policies promoted by the U.S. have frequently favored neoliberal approaches, which have led to increased economic disparities and social unrest (Hunt, 2015).

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The impact of U.S. immigration policies has also significantly affected Honduras' socio-economic landscape. Additionally, Honduras continues to host a U.S. military presence, cooperating on anti-drug efforts that underscore the ongoing strategic importance of the country to U.S. security policy in the region (Meyer, 2014). The deportation of gang members from the U.S. to Honduras in the 1990s has been linked to the rise of organized crime and gang violence, which has destabilized communities and contributed to waves of emigration towards the U.S (Ambrosius, 2018). This cycle of violence and migration has created a humanitarian crisis, prompting U.S. policymakers to address the root causes of migration, including economic instability and violence in Honduras. The U.S. has responded with various initiatives aimed at reducing migration pressures, although these efforts have often been criticized for their limited effectiveness and failure to address underlying issues (Alberto & Chilton, 2019).

Conclusion

In this chapter, we explored the complex historical, socio-economic, and political background of Honduras, setting the stage for understanding the country's relationship with the IMF. The country's turbulent history, marked by political instability, economic underdevelopment, and external influence, has contributed to a fragile governance structure and a highly unequal society. Honduras' deep-rooted challenges, such as widespread poverty, economic dependence on agriculture and remittances, high levels of violence, and inadequate education systems, have hindered sustainable growth and exacerbated social inequities.

The political landscape of Honduras, characterized by corruption, weak institutions, and frequent military coups, has not only stunted its development but also made it increasingly reliant on foreign aid and interventions from organizations like the IMF. Moreover, the heavy influence of external actors, particularly the United States, has played a significant role in shaping both the economic policies and political trajectory of Honduras, often at the expense of inclusive development.

As we move into the following chapters, we will examine how the IMF's involvement has interacted with these existing challenges. The structural vulnerabilities discussed here—political instability, economic dependence, and external influences—provide a critical foundation for understanding the IMF's impact on Honduras. By analyzing the effectiveness, limitations, and long-term consequences of IMF programs, we will evaluate whether its interventions have helped Honduras address these deep-seated issues or further exacerbated

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them. This understanding will be key to assessing the broader implications of IMF policies on Honduras’ development trajectory.

Chapter 3 : The Impact of the IMF

In order to better understand the impact that the IMF has had in Honduras over the years, it is also important to review the region the country is a part of. Honduras is a Central American country but, on a wider level, it is part of the Latin American region. This chapter will be analyzed through a structured approach that first examines the big picture impact of the IMF in Latin America as a whole because of the many similarities shared by countries in the region. It will then narrow its way down to Central America and evaluate the countries that neighbor Honduras. Finally, it will end by assessing the impact of the IMF in Honduras.

As seen in the first chapter of this paper, the objective of the IMF is to achieve sustainable growth and prosperity for all of its member countries. It works towards this through different methods like policy advice or financial assistance. Although the IMF asserts that poverty reduction is a key objective, research shows that developing countries under the IMF arrangements often experience increased poverty rates (Biglaiser & McGauvran, 2022). The objective of this chapter will be to analyze the actions taken by the IMF and their consequences.

3.1 The IMF in Latin America

Initially, the IMF devoted most of its attention to developed countries, however following the collapse of the Bretton Woods system in the 1970s, the IMF's responsibilities in the global financial system modified and shifted its attention to developing countries (Babb, 2003). This section will be focused on what are the actions taken by the IMF in the Latin American Region as a whole. It is not uncommon for countries in the same regions to work together towards the same goals. For non-great powers, cooperation seems like an obvious choice but structural factors can undermine this collaboration in less developed countries. Historically, Latin American countries have failed to cooperate multilaterally at the regional level without strong leadership from the United States and outside organizations such as the IMF (Armijo, 2023). Political fragmentation, unequal economic development, and differences in national interests further complicate efforts for sustained regional cooperation.

Politically and economically, Latin American nations have long struggled with similar challenges, such as income inequality, political instability, and periods of authoritarianism. Many countries in the region experienced colonialism followed by cycles of external debt crises, fluctuating commodity prices, and inflationary pressures, creating common ground in their economic struggles (Fajardo, 2021). The IMF's involvement in the region has historically

been characterized by a series of economic policies and conditional loans aimed at stabilizing economies facing crises. These actions, while intended to foster economic recovery, have often led to significant social and political repercussions, which merit a detailed examination.

The IMF has played a significant role in Latin America's economic landscape, especially during periods of crisis. Its interventions, often characterized by austerity measures, have sparked debates about the long-term social impact of these policies on poverty and inequality. The relationship between Latin America and the IMF has largely been shaped by economic instability, debt crises, and efforts to implement structural adjustments aimed at stabilizing economies across the region. Historically, the IMF relationship with Latin American countries are associated with intrusive conditional loan agreements and massive debt (Kedar, 2013). As a result, the IMF’s presence in the region has often been viewed with skepticism, with critics arguing that its policies have deepened social inequality and hindered long-term economic development.

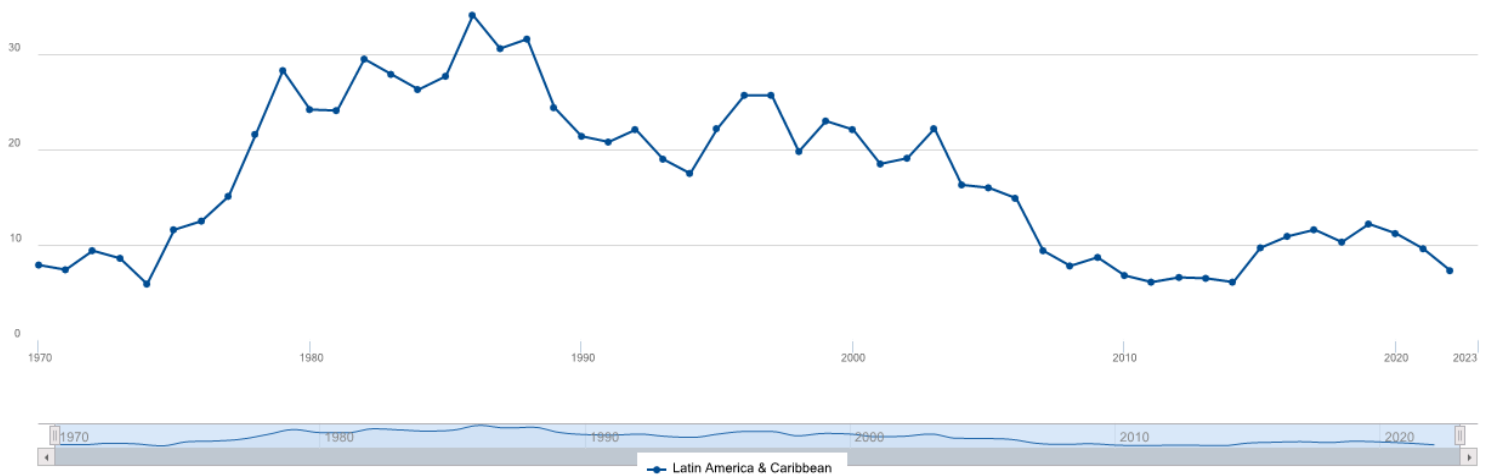
Thus, an examination of the IMF’s broader influence on Latin America provides critical insights that will enhance our understanding of its specific impact on Honduras. The shared experiences of these nations, both in terms of successes and challenges, offer valuable lessons and context for understanding the unique path Honduras has followed. By first exploring the regional patterns of IMF interventions, we are better equipped to understand how Honduras fits into the broader Latin American economic landscape.

3.1.1 The Lost Decade

“The Lost Decade” is a period during the 1980s in which many Latin American countries were unable to service their foreign debt, it encapsules a perception that the 1980s were a time of missed opportunities for growth and development while challenged with high inflation, rising unemployment, and increasing poverty. The debt crisis originated when oil price shocks caused current account deficits in lots of Latin American countries. In response, the countries took on large debts from US banks. High global interest rates, tightening monetary policies, and economic recession made it impossible for these countries to pay their debts and they announced that their payments would be rescheduled for later (“The LDC Debt Crisis,” 1997). The resulting credit cutoff pushed the region into recession. As seen in Figure 3.1, the debt service to exports peaked in the 1980s in Latin America. This reflects that the debt repayment capacity of the region was at its worst. Having a higher debt service to export ratio is generally worse for a country. It means that a larger portion of a country's export earnings is being used to repay debt, leaving less for other critical needs like investment in infrastructure, healthcare,

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or education. However, while the reduction in debt service might suggest an improvement in the debt burden relative to exports, it does not necessarily indicate a stronger overall economy.



Series : Debt service (PPG and IMF only, % of exports of goods, services and primary income)
Source: World Development Indicators
Created on: 10/25/2024

VII Figure 3.1 - Debt Service to Exports - Source: (World Bank Open Data, n.d.)

During this period, the IMF played a critical role to expedite economic reforms in the region. The IMF's involvement was primarily through the provision of loans and the imposition of strict conditionalities aimed at stabilizing economies that were hurting from the effects of excessive borrowing and external shocks. The IMF imposed strict conditions through structural adjustment programs, requiring countries to implement austerity measures such as deep cuts in public spending, privatization of state assets, and trade liberalization. While the program prevented immediate collapse, the focus on debt repayment over growth exacerbated poverty, worsened inequality, and hindered long-term development, ultimately deepening the economic crisis rather than resolving it (Martone, 2004).

3.1.2 Latin America - United by History

The roots of Latin American nations are deeply intertwined, shaped by a shared history of colonization, the subsequent struggle for independence, and a massive influence of religion. The vast majority of Latin America fell under Spanish and Portuguese rule, leading to the imposition of European social, political, and economic structures across the continent. The Catholic Church was not only a spiritual authority but also a political and economic power that was deeply intertwined with colonial governance and its influence continued into the post-independence period (Dussel, 1981). Over centuries of colonial rule, these territories developed

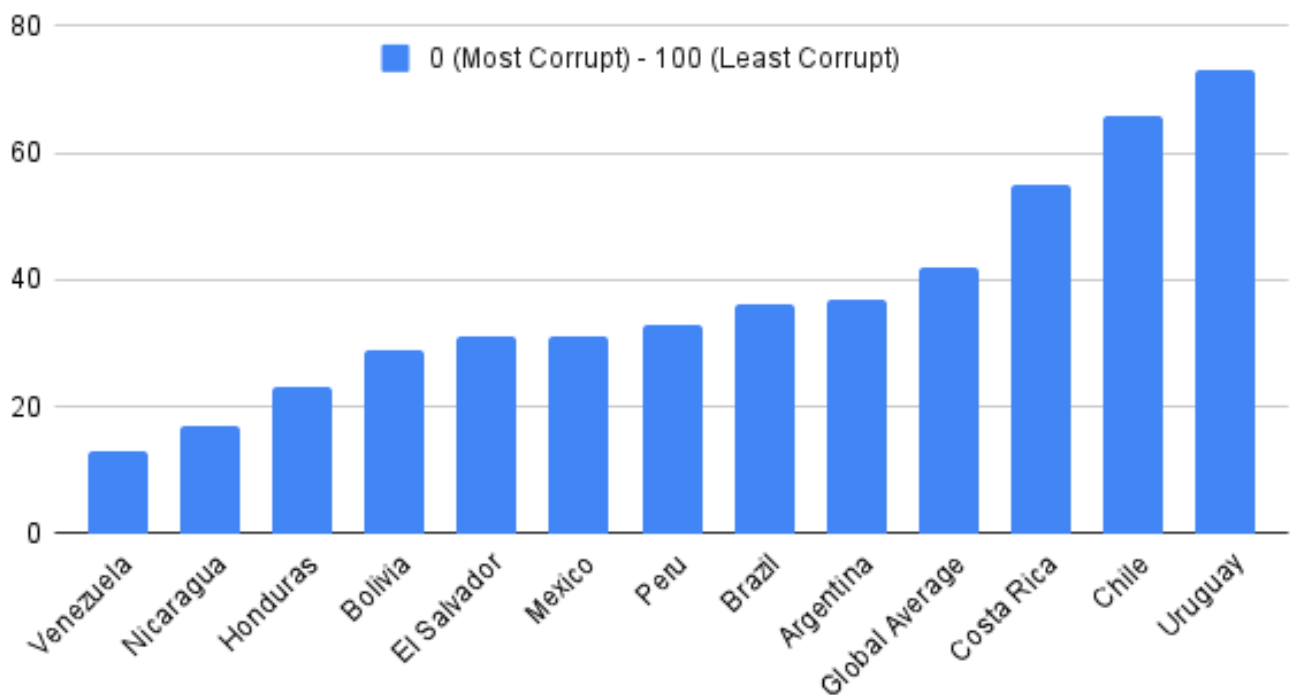
Chapter 3 “The impact fo the IMF”

under a common framework of extractive economies, authoritarian governance, and social hierarchies that privileged the colonial elite.

These countries, once independent, faced similar challenges such as political fragmentation, economic dependence on foreign powers, and social inequality which continued to shape their developmental trajectories (Lockhart & Schwartz, 1983). This shared history of colonization and the fight for independence laid the foundation for many of the socio-political and economic similarities observed across Latin America today, making the region's collective experiences with external powers, including the IMF, a critical part of understanding any single country's history.

Furthermore, corruption has become a pervasive issue across Latin America, caused in part by the historical legacy of centralized power and weak institutional checks, which foster environments where elite groups often prioritize personal gain over public welfare, creating significant obstacles to effective governance and economic growth. Transparency International reports that corruption continues to undermine public trust in governments and contributes to inequality and inefficiency in resource allocation, with all Latin American countries being below the world average in the corruption perception index of 2023 (Figure 3.2) with the exceptions of just Costa Rica, Chile, and Uruguay (*2023 Corruption Perceptions Index*, 2024). High levels of corruption are obvious as public funds are often misused, and powerful political figures use their influence for personal gain. Major corruption cases in countries like Brazil, Argentina, and Mexico reveal how deep-rooted corruption limits economic growth, increases income inequality, and erodes public trust in government (Morris & Blake, 2010). This persistent issue of corruption is crucial to consider in IMF interventions, as it often obstructs the effective implementation of economic reforms, complicating the overall impact of IMF policies on long-term growth in Latin America.

Corruption Perception Index



VIII Figure 3.2 - Corruption Perception Index - Source: (2023 Corruption Perceptions Index, 2024)

3.1.3 IMF’s Policy Responses

Economic reforms typically follow crises and new policies are aimed at restructuring economic systems to foster stability, growth, and sustainability. They are often addressing the correction of macroeconomic imbalances such as high inflation, unsustainable debt, or economic stagnation. As part of the IMF’s loan process, the borrower countries are encouraged to initiate reforms to help foster sustainability and prosperity. Economic reforms face a double challenge in democracies: economic effectiveness and political feasibility. An efficient economic reform requires the collaboration of economists and politicians in order to avoid unnecessarily high socio-economic costs and navigate any political obstacles (Bresser-Pereira, 1993). Because of the evolving and complex nature of challenges in Latin America, countries in the region have often served as experimental grounds, testing varied approaches to manage economic volatility. This reflects a diversity of national responses to challenges, exemplified by the Mexican Peso Crisis and the regional “Lost Decade.”

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The IMF plays an important role in offering policy advice, providing technical assistance, and facilitating loans. Loan agreements often require borrower nations to undertake market-oriented reforms, including tax, trade, capital, and financial liberalization, along with privatization, however, compliance with these reforms is inconsistent across the region, frequently shaped by political and economic factors (Biglaiser & DeRouen Jr, 2011). Research indicates that while trade and capital liberalization are more commonly pursued when backed by U.S. interests and minimal domestic resistance, privatization efforts lag, largely due to the time needed to complete and usually face strong public resistance (Biglaiser & DeRouen Jr, 2011). Interestingly, conditions tied to public sector reforms, such as reductions in government wage bills, tend to prompt short-term spending cuts, though these cuts often fail to persist over the long term due to domestic political pressures, creating cycles of 'backsliding' once IMF oversight eases. This pattern of temporary adjustment highlights the challenge of sustainable fiscal reform within politically sensitive areas, such as public sector employment and compensation (Rickard & Caraway, 2019). Tax and financial reforms are less common even under IMF programs, with initiatives often concentrated around election periods (Acosta-Ormaechea et al., 2022).

The IMF's impact on economic reforms in Latin America has had mixed results, however, it is still considered an important player in Latin American economies. It has been shown that conditionality is often shaped by U.S. support and local political dynamics, driving some reforms while stalling others. For example, the IMF has helped countries like Mexico, Colombia, Chile, and Peru with Flexible Credit Lines, which have proven helpful to supplement reserve adequacy and increase confidence in countries with very strong policies during periods of uncertainty (Batini et al., 2020). On the other hand, it is also evident that the IMF's advice tends to be generic rather than specific to the countries' individual market drivers and dynamics. This avoids adding value to the countries and is apparent in the sentiment from their policymakers that the IMF's staff did not always recognize the complexities of dealing with capital flows in a region that has historically depended heavily on, and at the same time is very sensitive to, foreign capital (Ball, 2019).

Additionally, the IMF could more actively challenge policy approaches. For instance, in the case of Argentina, the IMF was criticized for insufficiently addressing the risks associated with rapid capital account liberalization. This reflects a broader need for the IMF to ensure that policy recommendations are better aligned with country-specific vulnerabilities, as also demonstrated by the missed opportunity to strengthen Mexico's external resilience against financial volatility (Batini et al., 2020). The example of Argentina underscores the need for a

tailored approach in IMF policy advice, balancing broad economic principles with local nuances to enhance resilience and long-term growth.

In summary, while the IMF’s interventions have supported many Latin American countries through crises, there remain several avenues for enhancing its effectiveness. Tailoring conditionality to better suit country-specific challenges, and ensuring long-term follow-through on reforms, may reinforce the IMF’s role as a stabilizing force in the region’s economies.

3.1.4 Consequences of Conditionality

When a country takes a loan from the IMF, it has to follow certain economic policies and reforms, which are often controversial. These conditions, such as cuts in public spending or privatization of state-owned assets, can be politically difficult to implement because they may lead to job losses, reduced public services, or other changes that people in the country might oppose (Reinsberg et al., 2022). The impacts caused by conditionality are one of the most polemic aspects of the IMF’s work in Latin America. Although necessary, it is often argued that the conditions attached to loans are too strict and while they aim to ensure fiscal discipline in structural reforms, it often leads to the disruption of public order (Vreeland, 2003). The most commonly proposed austerity measures in the IMF loans include wage bill cuts and freezes, increases to or the introduction of value-added tax, and general public expenditure cuts (Tamale, 2021). While the intention behind these conditions is to ensure that countries can repay their loans and achieve sustainable economic growth, the consequences have often led to an increase in public dissent and protests, as citizens see these agreements as a threat to their country’s sovereignty (Ortiz & Béjar, 2013). When external organizations like the IMF influence domestic policies, citizens feel disconnected from their governments, perceiving that these institutions no longer represent their interests. Findings show that agreeing to IMF-imposed austerity measures creates a sense among citizens that political elites are “selling out,” which fuels discontent and public mobilization (Ortiz & Béjar, 2013). The increase in contentious actions also raises important questions about the relationship between IMF involvement and democracy, suggesting that IMF-led economic interventions may undermine democratic stability. For policymakers, these insights highlight the need for Latin American governments to strengthen their domestic institutions before seeking IMF assistance, as doing so could help reduce social unrest and build resilience against the disruptive effects of external economic mandates (Ortiz & Béjar, 2013).

Conditionality is criticized not only by the perceptions of the public, but also it is believed that these conditions, particularly during times of crisis, often prioritize fiscal austerity over social

welfare. For instance, countries receiving IMF loans are frequently required to cut public spending, which can lead to significant reductions in essential services such as healthcare, education, and social protection programs (Acevedo et al., 2022). These austerity measures disproportionately affect the most vulnerable populations, exacerbating existing inequalities and leading to increased poverty rates. Moreover, researchers argue that the IMF's focus on austerity can hinder economic recovery in the long term (Tamale, 2021). By prioritizing debt repayment and fiscal discipline over social investment, countries may find themselves trapped in a cycle of economic stagnation and social discontent. Many call for a reevaluation of IMF conditionality, advocating for policies that prioritize social spending and economic resilience, particularly in the wake of crises such as the COVID-19 pandemic (Acevedo et al., 2022). A more balanced approach that considers the social implications of economic reforms is essential for fostering sustainable development in Latin America.

Research has shown that adverse effects of conditionality are usually the strongest on structural reforms because they imply strategic economic changes, for example greater trade openness, reform of the labor market, and privatization of state-owned companies (Biglaiser & McGauvran, 2022). Structural conditions typically raise unemployment and lower government revenues, which impacts essential social services, worsening poverty for those already vulnerable (Biglaiser & McGauvran, 2022). In contrast, IMF conditions aimed at economic stabilization, which offer more flexibility to borrower countries, tend to have a less severe impact on poverty. For instance, whereas structural adjustments impose a lot of pain on the people, cutbacks in fiscal deficits allow the governments' flexibility in achieving macroeconomic objectives thus minimizing adverse effects on the poor (Biglaiser & McGauvran, 2022). In addition to these structural reforms, tax restructuring has been indicated to increase income inequality as they disproportionately affect low-income households, particularly through regressive consumption taxes like the value-added tax (Biglaiser & McGauvran, 2022).

3.1.5 Macroeconomic Effects

The economic performance of countries following IMF interventions has been a subject of extensive research, obtaining mixed results that highlight both successes and failures. While some countries have experienced short-term stabilization and growth, others have faced prolonged economic difficulties, raising questions about the effectiveness of IMF programs (Ozturk, 2008). Ozturk's empirical evidence suggests that a country's overall economic situation ultimately deteriorates after the IMF enables a country to overcome a balance of

payment crisis. A critical examination found that IMF assistance is associated with an increase in corporate default risk, suggesting that the immediate aftermath of IMF interventions can create instability in the private sector (Nguyen, 2023). This finding raises concerns about the broader economic implications of IMF programs, particularly in terms of their ability to foster sustainable growth and stability.

In certain instances, however, IMF interventions have led to positive economic outcomes. For example, a study found that IMF programs can facilitate necessary economic reforms in Latin America, where countries have successfully implemented liberalization measures that have spurred growth (Biglaiser & DeRouen Jr, 2011). The study indicates that countries that adhered to IMF recommendations often experienced improvements in macroeconomic stability, which can attract foreign direct investment and enhance overall economic performance. Similarly, a different study suggests that IMF programs can have a generally positive effect on economic growth, particularly in low-income countries, for up to two years following the implementation of agreements (Balima & Sokolova, 2021).

There is no doubt that the results are mixed. A possible explanation for this ambiguity can be that sometimes the effects of IMF assistance may arrive with a lag, complicating the assessment of immediate economic performance (Fidrmuc & Kostagianni, 2015). This lag can lead to misinterpretations of the effectiveness of IMF programs, as short-term negative impacts may overshadow longer-term benefits (David et al., 2020). The mixed outcomes of IMF interventions underscore the importance of contextual factors in determining their effectiveness as the political and institutional environment of a country plays a crucial role in the success of IMF programs (Moser & Sturm, 2011). Countries with stronger institutions and governance structures tend to implement IMF recommendations more effectively, leading to better economic outcomes, and conversely, weak institutions can hinder the implementation of reforms, resulting in prolonged economic distress (Moser & Sturm, 2011). Many of the reasons that contribute to why IMF stabilization programs tend to fail in Latin America seem to originate from within their own weak systems and local authorities. When analyzing existing studies on whether IMF programs affect economic growth and, if so, whether it has a negative or positive impact, there is no clear answer (Dreher, 2006).

3.1.6 Recidivism in IMF - A Dependency Trap?

Recidivism in IMF programs refers to the tendency of countries to repeatedly seek assistance from the IMF after previous interventions. This phenomenon raises critical questions about the long-term effectiveness of IMF policies and the sustainability of economic reforms. Many Latin

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American nations have experienced cycles of economic crises that lead them back to the IMF, suggesting that initial interventions may not have adequately addressed the underlying structural issues (*Oxford Handbook of the International Monetary Fund*, 2024). As seen in the previous sections, there are plenty of arguments and studies that the impact of the IMF in Latin America is not positive. Nevertheless, if that would be the definite case, it would be logical to assume that Latin American countries would not repeat their collaborations with the IMF. Still, the majority of the countries have been supported repeatedly by the IMF and this pattern raises concerns that countries might rely on the IMF too heavily. This concept known as moral hazard is where support from the IMF unintentionally encourages risky economic behaviors instead of promoting sustainable reforms and creates dependency (Ozturk, 2008). As seen in Figure 3.3, this is a severe dilemma in Latin America, as there were seven Latin American and Caribbean countries in the top ten countries in the world that have had the most IMF lending arrangements up to 2019. However, some better developed countries such as Costa Rica have also relapsed into IMF arrangements with a total of 18 to date (*History of Lending Commitments: Costa Rica*, 2021).

Rank	Country (Latin America & the Caribbean in yellow)	Total IMF Lending Arrangements
1	Haiti	27
2	Colombia	25
3	Peru	25
4	Honduras	23
5	Philippines	23
6	Uruguay	23
7	Argentina	22
8	Pakistan	22
9	Liberia	21
10	El Salvador	21

IX Figure 3.3 History of Lending Arrangements Source: IMF Finances, IMF History of Lending Arrangements database as of July 29, 2019 Prepared by Prof. Steve H. Hanke. The Johns Hopkins University (Hanke, 2019) Note: All 6 types of IMF lending arrangements

Research indicates that countries often return to the IMF due to a combination of external shocks, poor economic management, and failure of previous reforms to deliver lasting stability (Bird & Mandilaras, 2011). The repeated reliance on IMF assistance indicates that past engagements do not necessarily lead to sustainable economic recovery. Furthermore, the IMF’s role as a temporary financial backstop has at times locked countries into cycles of borrowing

that worsens their dependency (Bird et al., 2004). Similarly, it was also found that countries with a history of IMF borrowing tend to have lower reserve holdings, further supporting the idea that reliance on IMF programs creates a cycle of dependency rather than fostering long-term economic stability (Joyce & Razo-Garcia, 2011). This cycle of dependency can create a perception among citizens that their governments are unable to manage their economies effectively, leading to a further decline in public trust. Moreover, the political and economic environment in which these countries operate can aggravate recidivism. More often than not, IMF prescriptions can be politically controversial which leads to countries failing to comply with the reforms and triggering adverse market reactions, which creates a scenario where borrowing costs rise, limiting the countries’ financing options beyond the IMF (Reinsberg et al., 2022). This dependency trap is particularly evident in Latin America, where political instability and economic challenges frequently result in a return to IMF programs.

Additionally, the design and conditionality of IMF programs have been scrutinized for their effectiveness as the likelihood of government crises increases when countries remain under IMF arrangements, suggesting that the very structure of these programs may contribute to political instability (Dreher & Gassebner, 2012). On the other hand, countries engaged in IMF-supported programs are significantly less likely to experience future banking crises compared to non-borrowing countries (Papi et al., 2015). However, this does not negate the fact that many of these countries still find themselves in need of further assistance, indicating that while IMF programs may mitigate certain risks, they do not eliminate the fundamental vulnerabilities that lead to repeated borrowing.

3.1.7 Interpretation - Latin America

The IMF’s interventions in Latin America are full of complexities as a region marked by persistent political and socio-economical challenges. While IMF policies have offered moments of economic stabilization, especially during severe crises, the long-term outcomes of these interventions are more delicate. As seen in the previous sections, one of the IMF's central challenges in Latin America is that its conventional policy prescriptions, such as austerity measures, fiscal discipline, and structural adjustments, do not always align with the unique socio-political landscape of the region, and as a result, IMF interventions are often met with skepticism.

A significant factor complicating the IMF’s impact is the pervasive weakness of domestic institutions in many Latin American nations. Strong institutions are essential for implementing and sustaining reforms, yet in much of Latin America, political instability, corruption, and lack

of public trust in government hinder institutional effectiveness. These weak institutions not only limit the capacity of governments to execute IMF-mandated policies but also foster a cycle of dependency that drives countries to seek IMF assistance repeatedly. These repeated cycles emphasize underlying structural vulnerabilities that cannot be resolved through financial aid alone. Indeed, these vulnerabilities are deeply rooted in the region’s history of colonialism, economic dependency, and cycles of authoritarian governance, all of which have shaped institutional fragility. In countries where weak political systems and high levels of corruption prevail, IMF-imposed reforms often encounter significant resistance or fall short in implementation, leading to incomplete reforms that rarely deliver sustainable economic growth.

In sum, while the IMF remains a vital player in supporting Latin American economies through financial crises, its long-term impact will likely remain limited without deeper structural reforms within these countries. By working towards stronger institutional foundations and adapting its policies to align with the region’s specific needs, the IMF could more effectively support Latin America’s journey toward economic resilience and reduce the cyclical dependency that has historically characterized their relationship.

3.2 The IMF in Central America

As we transition from the broader context of the IMF's involvement in Latin America to an examination of the Central American region, it is essential to recognize both the similarities and distinctions that characterize the region's relationship with the IMF. While both regions have faced issues such as economic instability, political fragmentation, and external debt crises, Central America’s smaller economies often exhibit more acute structural vulnerabilities. These include a higher dependency on remittances, vulnerability to natural disasters, and concentrated export sectors, all of which impact the region’s economic resilience and shape the IMF’s involvement (Ulku & Zaourak, 2021). Central American countries’ economic indicators are lower than the median of the entire Latin America, as only Costa Rica exceeds figures like the average GDP per capita of Latin America.

The IMF's interventions in Central America have often mirrored those in Latin America, particularly in terms of conditionality and the implementation of structural adjustment programs aimed at stabilizing economies during crises. However, the outcomes of these interventions have varied significantly, influenced by factors such as governance quality, regional cooperation, and the specific economic contexts of individual countries. Unlike the larger economies of Latin America, which have historically played a significant role in regional

economic dynamics, Central American nations often grapple with limited economic diversification and weaker institutional capacities. These factors have compounded the effects of IMF policies, leading to outcomes that can differ markedly from those observed in larger Latin American nations (Cardemil et al., 2000). For instance, while austerity measures and structural reforms have been a common thread in both regions, the social repercussions in Central America have often been more pronounced, given the already precarious socio-economic conditions.

As we delve into the specifics of the IMF's actions in Central America, it is crucial to consider how these interventions reflect broader regional patterns while also addressing the unique challenges faced by Central American nations. By examining the IMF's impact through this dual lens, we can gain a deeper understanding of the implications of its policies for the countries in the region, including Honduras.

3.2.1 A Region So Similar Yet So Different

Central America is a relatively small region, which in the early 1800s, was initially its own sovereign known as the Federal Republic of Central America and composed by Honduras, Costa Rica, Guatemala, El Salvador, and Nicaragua. Now that all the countries are sovereign, the region is considered to be composed of Panama, Belize, and the initial five, although Panama has been historically considered as Southern American, and Bolivia only gained independence from Great Britain in 1981 (Booth et al., 2020).

Despite their proximity and many commonalities of history, global context, political, and economic development, their differences have been heavier and provoked different social and economic outcomes. For example as seen in Figure 3.4, Costa Rica and Nicaragua, which are neighboring countries with a similar amount of population, have very different social and economic circumstances. Costa Rica's poverty rate and GDP in 2021 were 17.3% and US\$64,929 billion respectively, while Nicaragua stood at a contradicting 46.3% poverty rate and a GDP of only US\$14140 billion. However, such big gaps between Central American countries was not always the case. In 1950, their economic activity levels stood at much similar levels as El Salvador was the richest, with only 1.8 times the GDP per capita of Nicaragua which was the poorest country in the region at the time; and by 2007, Costa Rica's GDP per capita rose by 301%, far surpassing the growth in other countries such as Nicaragua which was only rose 19% in the same timeframe (Booth et al., 2020).

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Costa Rica, has undeniably outperformed the rest of the countries in Latin America as it invested more heavily in education, health, and welfare, dedicating a greater share of its budget to social programs compared to countries like Honduras and Nicaragua. By 1998, Costa Rica's social spending as a percentage of GDP was 16.8%, significantly higher than Honduras' 7.4% or El Salvador's (Booth et al., 2020). In contrast, countries like Honduras and Nicaragua were more affected by elite-controlled economies, focusing on export-driven growth that often benefited a small segment of the population. This dependency on export commodities and elite interests limited the broader distribution of economic benefits, leading to entrenched social inequalities and higher levels of poverty. As seen in Figure 3.5, Costa Rica is the only Central American country without political violence and repression. This facilitated stable economic development and social investment, while the long periods of political turmoil in other countries

	Costa Rica	Guatemala	El Salvador	Nicaragua	Honduras
Population - 2024 (in millions)	5,1	18,4	6,3	6,9	10,8
Poverty Rate (2001)	27.7%	53.7% (2000)	50.6%	65.1%	57.4 %
Poverty Rate (2021)	17.3%	50.5% (2014)	30.3%	46.3%	67.8%
Percent change in Poverty Rates	- 10.4%	- 3.2%	- 20.4 %	- 18.8%	10.4%
Extreme Poverty Rate (2001)	5.3%	16.9% (2000)	19.1%	35.8%	27.3%
Extreme Poverty Rate (2021)	3.7%	15.4% (2014)	8.4%	18.3%	34.4%
Percent change in Extreme Poverty Rates	- 1.6%	- 1.5%	- 10.7%	- 17.5%	7.1%
Total Annual GDP at current prices in millions US\$(2001)	15970	19720	12283	5352	7649
Total Annual GDP at current prices in millions US\$(2021)	64929	86480	29043	14140	28140
Total change in GDP	48959	66760	16760	8788	20491
Percent change in GDP	406,57%	438,54%	236,45%	264,20%	367,89%
Total Annual GDP per capita at current prices in US\$ (2001)	3940	1642	2051	1031	1119
Total Annual GDP per capita at current prices in US\$ (2021)	12598	4911	4600	2064	2738
Total change in GDP per capita	8658	3269	2549	1033	1619

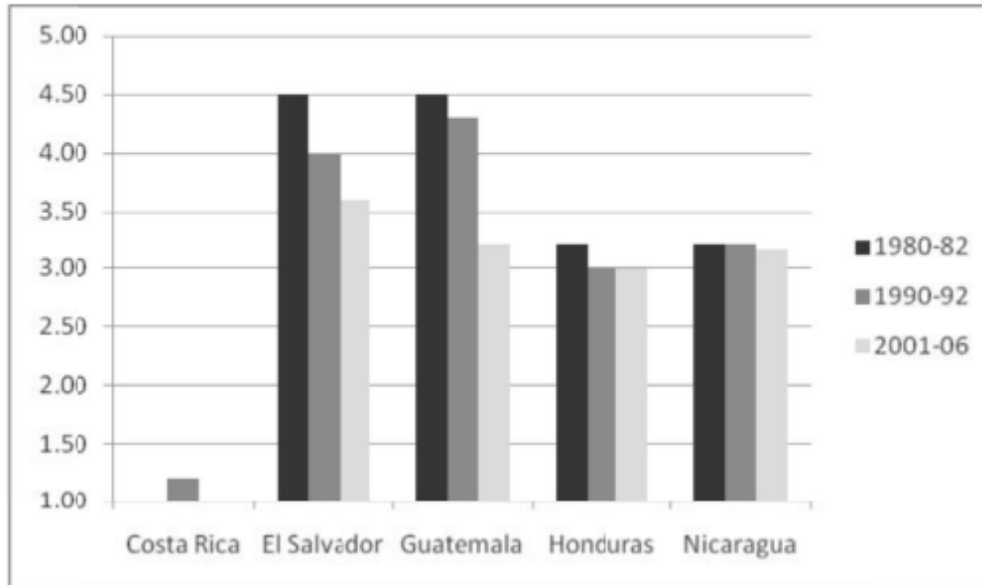
X Figure 3.4 - Central American Socioeconomic Data - Source: Personal elaboration with information from (CEPALSTAT Statistical Databases and Publications, n.d.)

is evidence of how challenging long-term development can be in these conditions (Booth et al., 2020). IMF policies can be hindered when intersected with political instability, violence, and repression as resources have to be redirected to immediate concerns rather than long-term

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development. These policies aimed at restructuring need stable governance and social investments for better implementation and minimized social backlash.

(1=very low, 5 =very high; values are means for each period for the Political Terror Scale, a combination of the U.S. State Department and Amnesty International ratings.)



SOURCES: Source: Mark Gibney, Political Terror Scale 1980–2006, accessed August 13, 2008 at <http://www.politicalterror scale.org/comparisons.html>. The Political Terror Scale is a combination of two scores based on the U.S. Department of State ranking of repression and violence and on the Amnesty International score of repression and violence. Gibney’s documentation describes the meanings of the scores as: “**Level 5:** Terror has expanded to the whole population. The leaders of these societies place no limits on the means or thoroughness with which they pursue personal or ideological goals. **Level 4:** Civil and political rights violations have expanded to large numbers of the population. Murders, disappearances, and torture are a common part of life. In spite of its generality, on this level terror affects those who interest themselves in politics or ideas. **Level 3:** There is extensive political imprisonment, or a recent history of such imprisonment. Execution or other political murders and brutality may be common. Unlimited detention, with or without a trial, for political views is accepted. **Level 2:** There is a limited amount of imprisonment for nonviolent political activity. However, few persons are affected, torture and beatings are exceptional. Political murder is rare. **Level 1:** Countries under a secure rule of law, people are not imprisoned for their view, and torture is rare or exceptional. Political murders are extremely rare.”

XI Figure 3.5 - Evolution of Political Violence and Repression Over Time - Source: (Booth et al., 2020)

3.2.2 Regional Vulnerabilities and Crises Responses

Central America’s engagement with the IMF shares some similarities with the broader Latin American experience but also reveals unique characteristics that shape the outcomes of IMF interventions in the region. While both regions have faced issues such as economic instability, political fragmentation, and external debt crises, Central America’s smaller economies often exhibit more acute structural vulnerabilities like higher dependence on remittances,

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susceptibility to natural disasters, heavy reliance on agriculture, and pronounced exposure to natural disasters and climate change impacts, all of which impact the region’s economic resilience and shape the IMF’s involvement (Gorostiaga & Marchetti, 1988). Unlike the larger economies of Latin America, which have historically played a significant role in regional economic dynamics, Central American nations have historically dealt with limited economic diversification and weaker institutional capacities (Stanley & Bunnag, 2001). These differences influence how IMF policies are implemented and their subsequent impact. For instance, while austerity measures and structural adjustment programs imposed by the IMF have been common across both regions, their social and economic repercussions in Central America can be more severe due to the region’s narrower fiscal space and reliance on external aid (Moreno Brid & Morales López, 2020).

Agriculture remains a foundation of the Central American economy, with 2.3 million families are small-holder farmers of which 90% are located in Guatemala, Nicaragua, Honduras, and El Salvador, suggesting that Costa Rica’s non-reliance on agriculture could be contributing to its success (Donatti et al., 2019). This reliance on agriculture not only exposes the region to the volatility of global commodity prices but also makes it susceptible to the adverse effects of natural disasters such as hurricanes and droughts, which can devastate crops and livelihoods (Hannah et al., 2017). The agricultural sector is particularly vulnerable to climate change, as rising temperatures and changing precipitation patterns threaten crop yields, food security, and even economic stability (Stewart et al., 2022). As seen in Figure 3.6, Central America is an extremely susceptible region to floods and storms, with Honduras being the top affected country in Central America with more events and more damages caused as well (Breuer & Cruz, 2005).

Table 1a. 1960-2022

	Event ^{1/}				Damages (% of GDP)		
	Floods	Average duration of the event ^{2/}	Storms	Average duration of the event	Average	Median	# Events reported ^{3/}
Honduras	38	0.12	25	0.11	5.45%	0.50%	21
Guatemala	35	0.09	20	0.09	1.04%	0.15%	24
El Salvador	18	0.14	18	0.06	2.75%	1.66%	12
Nicaragua	23	0.36	24	0.08	6.39%	0.23%	12
Dominican Republic	30	0.09	39	0.05	1.11%	0.21%	18
Costa Rica	30	0.15	10	0.10	0.87%	0.30%	15
Panama	40	0.14	8	0.02	0.19%	0.04%	15
Total					2.54%	0.21%	

Table 1b. 2000-2019

Honduras	20	0.19	11	0.12	0.43%	0.16%	8
Guatemala	22	0.13	14	0.11	0.18%	0.02%	5
El Salvador	11	0.20	11	0.06	3.20%	3.68%	4
Nicaragua	16	0.46	14	0.07	0.02%	0.02%	3
Dominican Republic	21	0.13	23	0.04	0.22%	0.07%	10
Costa Rica	19	0.19	4	0.16	0.21%	0.26%	4
Panama	25	0.14	2	0.02	0.02%	0.01%	5
Total					0.97%	0.15%	

1/ EM-DAT as of May, 2022.

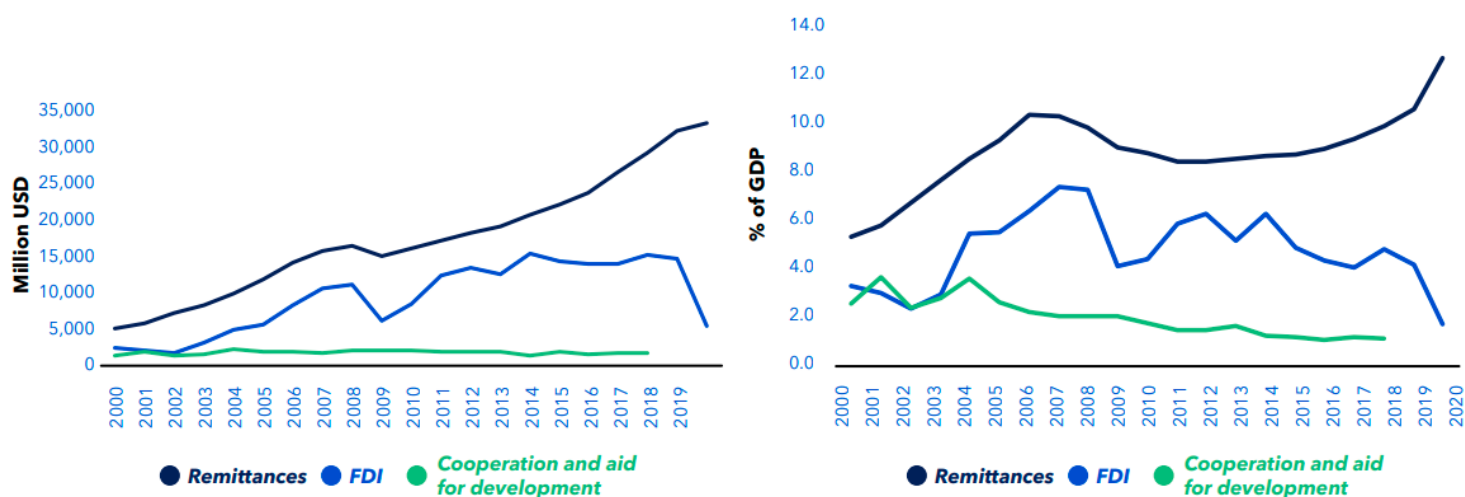
2/In months

3/Not all recorded events have estimated damages

XII Figure 3.6 - Summary Statistics of Reported Floods and Storms - Source: (Kim et al., 2022)

In addition to agricultural dependence, remittances play a critical role in highlighting the vulnerabilities in the economies of Central American countries. These financial flows, primarily from migrants working abroad, account for a substantial share of national income and are vital for household consumption and poverty alleviation, however, since the money is not typically used for investment activities, high dependency is created and growth is not promoted in the long-run (Basnet et al., 2022). As seen in Figure 3.7, remittances have shown an upward trend during the last twenty years, and are much more substantial than foreign direct investment and cooperation and development aid funds (Méndez Maddaleno & Castro-Leal, 2021). Remittances constitute a significant portion of GDP in Central American countries, with Honduras (the highest receiver in percentage of own GDP of all Latin America), El Salvador, Nicaragua, and Guatemala at 24.1%, 24%, 14.7%, and 14.6% respectively, while Costa Rica is an exception, where remittances account for less than 1% of GDP in 2020 (Méndez Maddaleno & Castro-Leal, 2021).

Figure 1 Remittances are the main flow of international resources to the region (2000-2020)



Note: The data on Official development assistance and aid for 2019 and 2020 is not available. Data for Panama corresponding to 2020 is not available.
Source: Own elaboration with information from the World Development Indicator and SECMCA.

XIII Figure 3.7 - Remittances in Central America are the main flow of international resources - Source: (Méndez Maddaleno & Castro-Leal, 2021)

Given these vulnerabilities, the IMF has played a significant role in supporting Central American countries through targeted interventions aimed at addressing the region's unique vulnerabilities, particularly in the agricultural sector and in response to natural disasters. One of the key strategies has been the establishment of emergency financing mechanisms designed to provide rapid assistance to countries affected by crises. For instance, following the devastation caused by Hurricane Mitch in Honduras and Nicaragua, the IMF has mobilized resources to support immediate recovery efforts, allowing governments to stabilize their economies and initiate reconstruction (*Press Release: IMF Approves Emergency Assistance for Honduras*, 1998). In more recent years, the IMF has responded to natural disasters such as Hurricanes Eta and Iota in 2020, which came during the Covid-19 pandemic and severely impacted Honduras, Nicaragua, and Guatemala by providing urgent liquidity to help manage the crises (Oqueli de Riera, 2021). The IMF’s policy guidance has also emphasized enhancing disaster preparedness and resilience by integrating climate risk assessments into national budget planning to better anticipate and mitigate the economic impacts of future disasters, as well as advocating for the establishment of contingency funds and financial safety nets that can be quickly mobilized during emergencies (European Central Bank., 2022). These measures aim to build more robust financial and institutional frameworks, which are crucial for reducing dependency on emergency aid and fostering sustainable development.

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While IMF interventions have provided essential support during periods of crisis, the effectiveness of these programs has varied. Countries with stronger governance, such as Costa Rica, have been better positioned to implement IMF recommendations effectively, ensuring that funds are used transparently and in ways that strengthen long-term resilience. In contrast, countries with weaker institutional capacities, like Honduras and Nicaragua, have faced challenges in fully leveraging IMF support, often due to issues such as corruption, political instability, and limited administrative infrastructure (Breuer & Cruz, 2005).

Overall, the IMF’s involvement in Central America underscores the need for tailored approaches that account for the region’s distinct economic and social vulnerabilities. By providing emergency funding, advocating for policy reforms that enhance resilience, and supporting disaster preparedness, the IMF has sought to help Central American nations navigate the complexities of economic recovery in the face of frequent natural disasters and structural challenges. However, as seen in Figure 3.8, Costa Rica’s governance indicators are always above the rest of Central America which directly affects the quality of the IMF interventions.

	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Costa Rica						
2004	84.0	83.0	68.3	71.4	65.7	77.3
2002	84.8	86.5	66.5	72.7	72.2	79.4
1997/98	87.8	81.2	73.5	90.9	71.5	76.6
El Salvador						
2004	53.4	39.8	47.6	68.5	42.5	43.8
2002	51.5	56.8	35.6	56.2	39.7	36.6
1997/98	49.4	48.1	44.5	99.4	29.7	41.6
Guatemala						
2004	36.4	21.8	18.8	48.8	18.8	27.1
2002	35.4	32.4	32.0	52.1	21.6	30.9
1997/98	33.1	22.1	45.8	66.7	10.3	18.8
Honduras						
2004	46.1	26.7	27.9	39.4	33.8	30.0
2002	46.0	38.4	27.3	41.8	23.7	27.3
1997/98	51.2	36.4	36.1	43.6	17.0	11.0
Nicaragua						
2004	48.5	41.7	27.4	46.3	30.4	46.3
2002	52.0	47.6	17.5	39.7	32.0	39.7
1997/98	57.6	37.7	29.7	37.0	25.5	18.2
Average for Central America						
2004	53.7	42.6	38.0	54.9	38.2	44.9
2002	53.9	52.3	35.8	52.5	37.8	42.8
1997/98	55.8	45.1	45.9	67.5	30.8	33.2
Average for Latin America and the Caribbean						
2004	60.5	58.3	55.6	57.6	54.3	57.4
2002	61.2	51.2	53.3	58.4	53.2	54.9
1997/98	59.1	45.0	48.3	66.4	43.9	46.7

Source: Kaufmann, Kraay and Mastruzzi (2005)

XIV Figure 3.8 - Comparative Governance Indicators - Source: (Breuer & Cruz, 2005)

3.2.3 Interpretation - Central America

The IMF's involvement in Central America shows the complex connection between regional challenges and economic recovery plans, highlighting the need for tailored and specific approaches. While IMF actions in Central America have some similarities with those in the broader Latin American region, the unique problems faced by Central American countries, such as heavy reliance on remittances, dependence on agriculture, vulnerability to natural disasters, and limited economic diversity, have influenced the results of these programs. Countries like Costa Rica, which have stronger governance and prioritize social spending on areas like education and healthcare, have managed to implement IMF policies more effectively, resulting in more stable growth and resilience. On the other hand, countries such as Honduras and Nicaragua, which face weaker institutions, political instability, and economic inequality, have found it harder to benefit fully from IMF support. This difference shows that the success of IMF policies depends not only on the programs themselves but also on the quality of governance and the social and political conditions in each country. The IMF has played an essential role in providing emergency support, particularly during natural disasters, which has helped to stabilize economies in the short term. However, achieving long-term success requires countries to have strong financial systems, transparent administration, and plans for disaster readiness, which are features that Costa Rica has demonstrated more consistently compared to other nations in the region. Therefore, to truly understand the IMF's impact in Central America, it is important to consider the different national contexts and how they affect the outcomes of these policies and the path toward sustainable development.

3.3 The IMF in Honduras

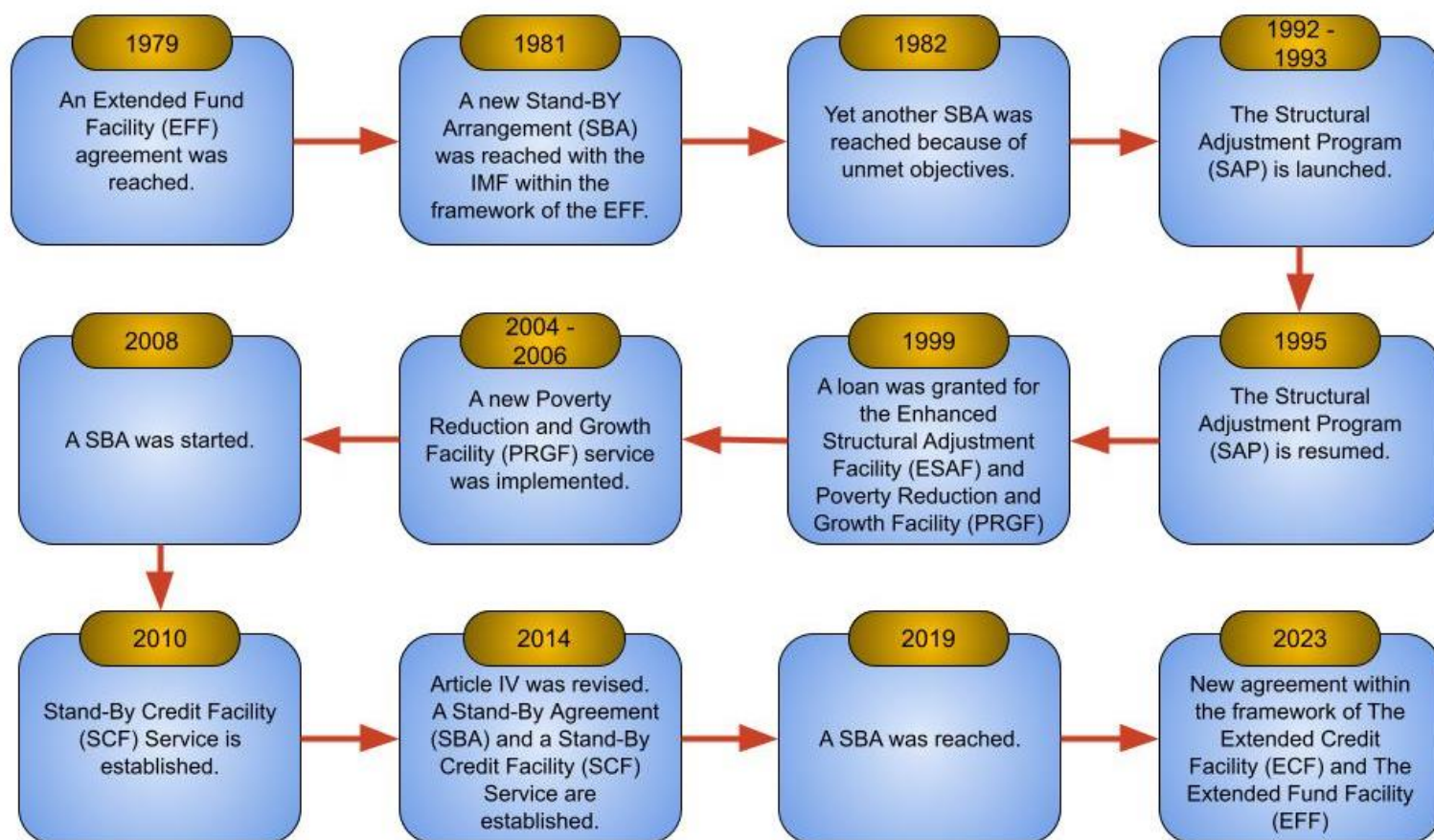
In the first chapter we analyzed the purpose of the IMF as an organization. In the second chapter we looked into the relevant context of Honduras for this topic. In earlier sections of this chapter we have analyzed the impact of the IMF in the region Honduras is part of. Now, the road is paved to fully understand the relationship and the impact of the IMF in Honduras. This chapter explores the complex and evolving relationship between Honduras and the IMF, tracing its origins, major agreements, and impacts on the nation's economic landscape. Since joining the IMF as a founding member in 1945, Honduras has engaged in numerous IMF programs, as it faced structural economic challenges and external pressures. Each program brought both opportunities and challenges for Honduras, often involving conditions that impacted public spending, governance, and social policies. This chapter provides a detailed analysis of these

agreements, considering how the IMF’s conditionalities shaped Honduras’ economic and social frameworks.

3.3.1 Relevant Timeline of the IMF - Honduras Relationship

The history of the relationship between Honduras and the IMF reflects decades of collaboration marked by different agreements. After becoming a member of the IMF in 1945, Honduras pursued various agreements with the organization, although most of them in small amounts until 1979 where they established their first significant agreement through an Extended Fund Facility (EFF), aimed at bolstering the public financial scene (*History of Lending Commitments: Honduras*, 2015). However, due to challenges in meeting objectives, Honduras required additional support, leading to new agreements in 1981 and 1982 under Stand-By Agreements (SBAs) to stabilize the economy amid rising deficits and inflation. The 1990s brought a more structured approach with the introduction of the Structural Adjustment Program (SAP) between 1992 and 1993, and again in 1995 (“Honduras y su estrecha relación con el FMI,” 2023). These programs aimed at fiscal reforms and public sector adjustments but faced interruptions due to unmet conditions and rising public debt. The years 1999 and 2000 marked a shift as Honduras engaged in Poverty Reduction and Growth Facility (PRGF), and Heavily Indebted Poor Countries (HIPC) arrangements (*Financial Position in the Fund for Honduras as of December 31, 2015*, 2015). A new PRGF agreement was implemented between 2004 and 2006, with goals to reduce public debt and curb inflation. In the 21st century, Honduras continued to rely on IMF support, entering a series of SBAs, including agreements in 2008, 2010, and 2014, with objectives centered around fiscal consolidation, monetary policy reform, and enhanced governance (“Honduras y su estrecha relación con el FMI,” 2023). The 2014 SBA also introduced Stand-By Credit Facilities (SCFs), underscoring the need for a comprehensive financial safety net amid persistent fiscal vulnerabilities. This era culminated in a new SBA and SCF agreement in 2019, intended to stabilize the economy through institutional and economic reforms; however, progress was hampered by the COVID-19 pandemic for which another millionaire disbursement was made under the SBA/SCF (Candia, 2020). Most recently, in 2023, Honduras entered a substantial 36-month agreement under the Extended Credit Facility (ECF) and Extended Fund Facility (EFF), aiming to fortify governance, improve fiscal resilience, and enhance climate resilience measures (“Honduras y su estrecha relación con el FMI,” 2023). This agreement is emblematic of Honduras' ongoing reliance on IMF assistance, underscoring the complex dynamics of international financial support in promoting sustainable economic development within the country. As illustrated in Figure 3.9, these agreements highlight a continuous cycle of financial assistance, reform, and restructuring. This historical overview

provides a foundation for understanding the implications of IMF intervention in Honduras, which will be analyzed in greater detail in the following sections.



XV Figure 3.9 - Source: Personal Elaboration with information from (“Honduras y su estrecha relación con el FMI,” 2023)

3.3.2 Structural Adjustment Programs - Late 20th Century

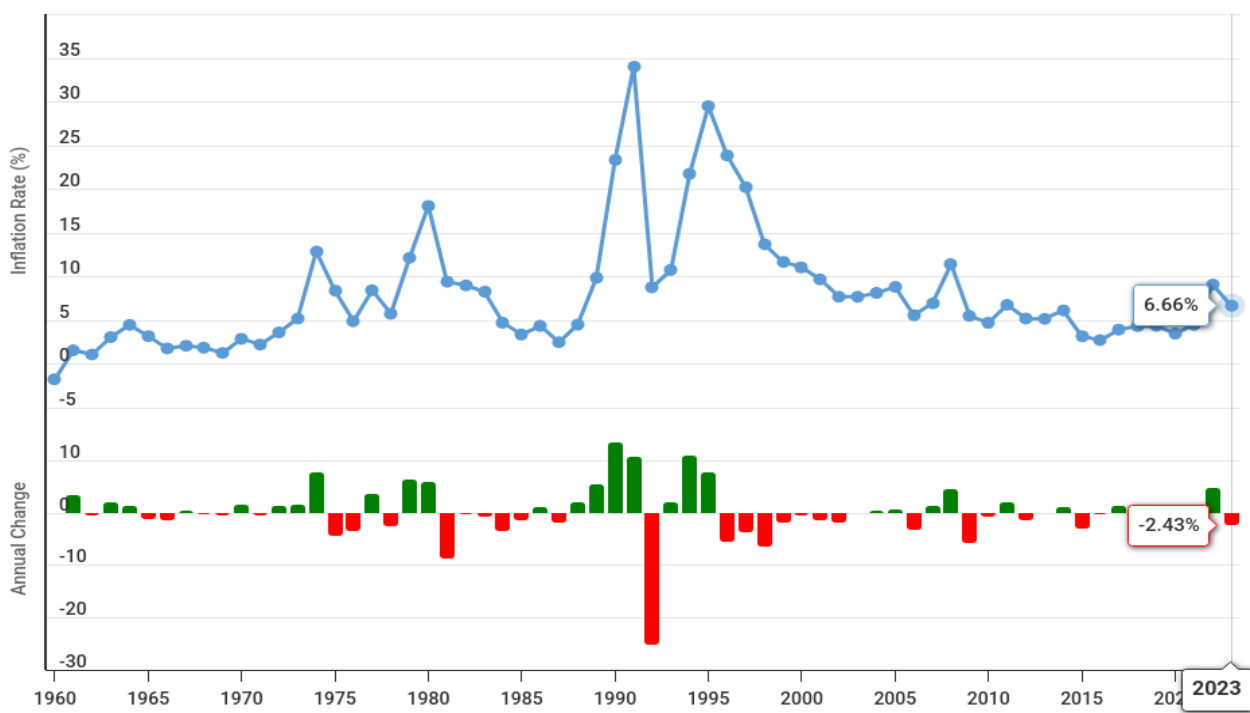
In the 1980s, Honduras, like many other Latin American countries, faced a period of economic crisis marked by high inflation, fiscal deficits, and rising foreign debt. Moreover, in the 1990s, the situation peaked, and as seen in Figure 3.10, inflation rates skyrocketed to 33.97% in 1991 (*Honduras Inflation Rate 1960-2024*, n.d.). To address these issues, the country engaged in a series of structural adjustment programs with the IFM. These structural adjustments required Honduras to implement specific reforms aimed at stabilizing its economy through austerity, trade liberalization, and privatization. A major component to achieve fiscal balance was fiscal austerity and downsizing the public sector. Between 1994 and 1995, as a means to reduce government expenditure, Honduras reduced its public sector workforce by a total of 4,000 employees, and while these measures helped control public spending, these significant job losses also mean an increase in inequality and access to public services (Forster et al., 2020).

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Another fundamental principle of the structural reforms was trade liberalization, reducing tariffs, and eliminating trade barriers which indeed boosted exports and integrated the Honduran economy into global markets, however, it made the country highly dependent on global market conditions while it also exposed domestic industries to competition from imported goods (Forster et al., 2020). A third key aspect of the adjustment programs includes labor market deregulation which was intended to create a more flexible labor market for businesses, yet it is argued that deregulation typically favors the interests of large corporations only, neglecting the need of smaller companies and the labor force, which further worsens inequality. Despite the terrible consequences of Hurricane Mitch in 1998, these policies improved the economy by the end of the 90s in Honduras, as in comparison to the 80s, GDP grew by 0.7, and the inflation rates stabilized (Cardemil et al., 2000). However, while these policies brought some economic stabilization, they also imposed significant social and economic costs, highlighting the complexity of using broad structural reforms in developing countries (Forster et al., 2020).

3.3.3 Poverty Reduction Strategy through Debt Relief Initiatives: HIPC and MDRI

In 1996, the IMF launched the Heavily Indebted Poor Countries (HIPC) initiative with the objective of relieving the unmanageable debt burdens of the poorest countries in the world, which is still considered as the largest and most comprehensive debt relief effort for low-income countries to date. Furthermore, it was evident that the process needed to be accelerated, and the



XVI Figure 3.10 - Historical Inflation Rates in Honduras - Source: (Honduras Inflation Rate 1960-2024, n.d.)

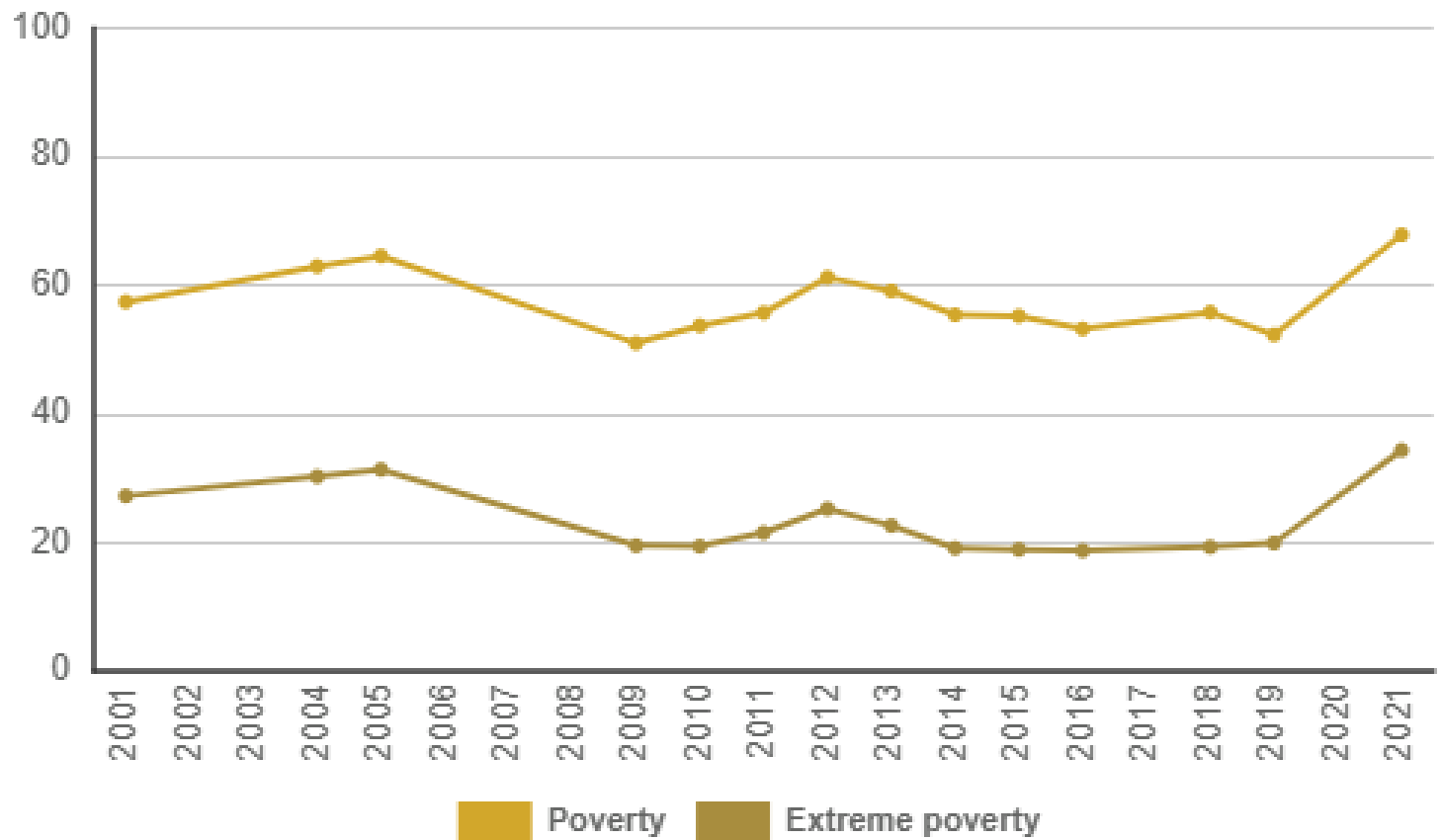
HIPC initiative was supplemented by the Multilateral Debt Relief Initiative (MDRI) (*Debt Relief Under the Heavily Indebted Poor Countries Initiative*, 2023).

In the summer of 2000, Honduras reached the decision point under the enhanced HIPC framework, indicating it met specific criteria, including a track record of specific reforms and the development of the Poverty Reduction Strategy (PRS) Paper. The IMF supported policies that required Honduras to implement fiscal discipline, trade liberalization, and privatization measures (Dervi et al., 2000). Furthermore, Honduras was asked to draw up an ambitious strategy with one of the initial objectives of reducing its poverty level from 63.9% in 2002 to 40 per cent by 2015, and sustained growth rates of four and a half to five per cent of GDP until 2015 (Cuesta, 2007). Having undertaken reforms, implemented the PRS, maintained macroeconomic stability, and established a foundation for poverty alleviation, Honduras reached the HIPC completion point by 2005 which enabled significant financial savings intended for poverty-alleviating programs and social development investments (Cuesta, 2007). Despite these objectives, debt relief in itself was not sufficient to substantially impact poverty levels as expected. Institutional and systemic challenges within Honduras, including corruption, weak governance, and inefficiencies in fund allocation, hampered the effective use of HIPC resources, particularly in rural and marginalized areas (de Jong, 2023). As seen in Figure 3.11, according to the estimate from the United Nations Economic Commission for Latin America and the Caribbean, Honduras’ poverty level was at 55.2% in 2015, instead of the targeted 40%, signifying a rather disappointing reduction of only 8.7% (*National Socio-Demographic Profile: Honduras - CEPALSTAT Statistic Database and Publications*, n.d.). Furthermore, it is evident that the result has been a lack of rapid and sustained economic growth with a per capita annual GDP growth of just 0.6 percent up to 2007 (Cuesta, 2007).

Population living in poverty and extreme poverty

(Percentage)

2001 - 2021



XVII Figure 3.11 - Population Living in Poverty and Extreme Poverty in Honduras - Source: (National Socio-Demographic Profile: Honduras - CEPALSTAT Statistic Database and Publications, n.d.)

The program did indeed relieve Honduras of massive debt, eased fiscal constraints and allowed the Honduran government to focus on pro-poor spending initiatives. However, the new policies implemented often focused more on stabilizing macroeconomic conditions rather than directly targeting the root causes of poverty (Cuesta, 2007). The reliance on broad economic liberalization strategies without sufficient focus on rural poverty and income distribution reflects a missed opportunity for more effective poverty reduction in Honduras. The Honduran experience underscores the limitations of applying a "one-size-fits-all" macroeconomic policy approach to poverty reduction. The IMF's emphasis on broad fiscal and trade liberalization measures, while beneficial for macroeconomic stability, did not adequately address the specific needs of Honduras' rural poor (de Jong, 2023). The strategy aimed to address critical sectors, including education, health, and infrastructure, which are essential for poverty reduction,

Chapter 3 “The impact fo the IMF”

however it was still deemed inadequate as it overlooked other critical areas such as infrastructure and rural development. Only about 13% of PRS funds targeted rural areas, even though rural poverty levels were significantly higher than urban poverty levels. For instance, between 2001 and 2005, rural poverty rates saw only a marginal decrease, from 73.8% to around 71.5% (Kay, 2011).

In spite of the limitations mentioned, the implementation of the PRS has resulted in some progress as the debt relief achieved through the HIPC initiative facilitated an increase in pro-poor spending. However, empirical data reveal that poverty reduction remained limited, partly due to institutional weaknesses, fragmented political will, and insufficient rural sector prioritization (Cuesta, 2007). This points to a gap between policy intent and policy implementation. Structural reforms that were necessary for deeper impact, particularly reforms addressing land ownership issues, agricultural productivity, and rural infrastructure, were either inadequately funded or deprioritized, thus limiting overall poverty reduction (de Jong, 2023). Although there was some progress in areas such as healthcare and education, the overarching goal of significant poverty reduction was not fully realized. Poverty levels have decreased slightly, but much of the Honduran population remains vulnerable (Kay, 2011). The PRS's lack of specific growth sectors and the absence of mechanisms to ensure that economic benefits would reach the most impoverished areas hindered its overall effectiveness. Ultimately, the experience underscores the importance of aligning international assistance frameworks with country-specific poverty dynamics to achieve sustainable development outcomes.

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Facility	Date of Arrangement	Expiration Date 4/	Amount Agreed	Amount Drawn	Amount Outstanding
Standby Arrangement	Dec 03, 2014	Dec 02, 2017	77,700	0	0
Standby Credit Facility	Dec 03, 2014	Dec 02, 2016	51,800	0	0
Standby Arrangement	Oct 01, 2010	Mar 31, 2012	64,750	0	0
Standby Credit Facility	Oct 01, 2010	Mar 31, 2012	64,750	0	0
Standby Arrangement	Apr 07, 2008	Mar 30, 2009	38,850	0	0
Extended Credit Facility	Feb 27, 2004	Feb 26, 2007	71,200	40,684	1,017
Extended Credit Facility	Mar 26, 1999	Dec 31, 2002	156,750	108,300	0
Extended Credit Facility	Jul 24, 1992	Jul 24, 1997	47,460	33,900	0
Standby Arrangement	Jul 27, 1990	Feb 17, 1992	30,500	30,500	0
Standby Arrangement	Nov 05, 1982	Dec 31, 1983	76,500	61,200	0
Extended Fund Facility	Jun 28, 1979	Jun 27, 1982	47,600	23,900	0
Standby Arrangement	Jun 07, 1972	Jun 06, 1973	15,000	0	0
Standby Arrangement	Jun 01, 1971	May 31, 1972	15,000	0	0
Standby Arrangement	Feb 01, 1969	Apr 30, 1970	11,000	0	0
Standby Arrangement	Jan 01, 1968	Dec 31, 1968	11,000	0	0
Standby Arrangement	Jan 01, 1966	Dec 31, 1966	10,000	2,500	0
Standby Arrangement	Aug 05, 1964	Aug 04, 1965	7,500	2,500	0
Standby Arrangement	Jul 18, 1963	Jul 17, 1964	7,500	5,000	0
Standby Arrangement	Jun 29, 1962	Jun 28, 1963	7,500	3,750	0
Standby Arrangement	May 01, 1961	Apr 30, 1962	7,500	3,750	0
Standby Arrangement	Mar 07, 1960	Mar 06, 1961	7,500	5,000	0
Standby Arrangement	Jan 29, 1959	Jan 28, 1960	4,500	3,750	0
Standby Arrangement	Nov 12, 1957	May 11, 1958	3,750	3,750	0
Total			835,610	328,484	1,018

XVIII Figure 3.12 - History of Lending Commitments as of December 31, 2015 (in thousands of SDRs) - Source: (History of Lending Commitments: Honduras, 2015)

3.3.4 Lending Commitments - Past and Present

As seen in figure 3.12 (only updated as of 2015) Honduras has an extensive history of lending commitments with the IMF. These loans have been done through different programs, and come in exchange of policy reform commitments, depending on the specific situations. Stand-by Arrangements is the most common type of program and also the program that Honduras has participated in the most, which is a non-concessional program primarily designed for short-term assistance to address balance-of-payment issues and temporary economic challenges (*The Stand by Arrangement (SBA)*, 2023). Similarly, Stand-by Credit Facility provides short-term and precautionary support for short-term payment needs but it is a concessional program targeted at low-income countries only (*The Stand by Credit Facility (SCF)*, 2023). Honduras often combines both concessional and non-concessional programs in order to grant access to larger funds more quickly, depending on the situation.

In one of the most important agreements up to date, Honduras entered into a combination of these two agreements in December 2014 totaling 129,500,000 Special Drawing Rights which translated to around US\$189 million in financing over three years (*History of Lending Commitments: Honduras*, 2015). As a condition of the deal, Honduras was required to implement fiscal consolidation measures to reduce its budget deficit by 6.5 percent of GDP over a four-year period, in addition to structural reforms including privatizations, pension reforms and public sector layoffs (Lefebvre, 2015). A study made in 2015 by Lefebvre argued that the IMF agreement was lacking the context of very high poverty and severe income inequality. In 2008, the unemployment and underemployment rate was at 35.5 percent of the labor force, which increased to 56.4 percent in 2013. Lefebvre argues that the fiscal austerity measures in the plan will only make the situation worse (Lefebvre, 2015). Fast forward to 2019 and the percentage continued rising to 60.61 percent which was even more affected by the pandemic as in 2020 it increased to 70.64 percent (*Fact Sheet Employment and Migration Honduras 2021*, 2021). Additionally, the budget deficit did not reduce the 6.5 percent of GDP in four years, but instead, Honduras had a deficit of -2.90%, -0.78%, -0.40%, -0.41, and 0.20% in the years 2014 to 2018 respectively (*Honduras Government Budget Deficit 2023*, n.d.). Even though the budget deficit did actually improve, it was not enough, hence highlighting the failure of the ambitious initial objective of the plan. The agreement’s approach was problematic for several reasons, including the high risk of relying on foreign direct investment, heavy reliance on spending cuts in essential programs like health and education, and the IMF’s pattern of backing general austerity and privatization measures (Lefebvre, 2015).

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The other programs for lending commitments of the IMF in which Honduras has participated, are the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). The EFF provides support for non-concessional longer-term structural reforms and growth and, similarly, the ECF provides a concessional financing facility for low-income countries aimed at addressing protracted balance-of-payment needs, poverty reduction, and economic growth (*The Extended Credit Facility (ECF)*, n.d.; *The Extended Fund Facility (EFF)*, n.d.). The historical and recurring economic challenges like fiscal deficits, inflationary pressures, and structural inefficiencies, have led Honduras to see longer term assistance from the IMF.

More recently, we can find an example on September 21, 2023, when the IMF approved a new combined EFF and ECF program for Honduras, amounting to SDR 624.5 million or approximately US\$822 million. This three-year arrangement was requested by the Honduran government as part of a broader strategy to tackle persistent structural challenges, particularly in governance, fiscal stability, and infrastructure. The program's design reflects both Honduras's current economic needs and insights gained from previous IMF engagements, focusing on four core areas: fiscal stability, governance and anti-corruption, energy sector reform, and climate resilience (Candia Romano, 2023). One of the primary objectives of the 2023 EFF and ECF program is to promote medium-term fiscal sustainability by developing a comprehensive fiscal framework. Historically, IMF-imposed fiscal consolidation has had mixed effects in Honduras and other developing nations. While consolidation efforts contribute to debt sustainability, they may also reduce public spending, which can be detrimental to economic growth in the short term. Studies on prior IMF programs in Latin America suggest that while fiscal reforms stabilize debt-to-GDP ratios, the immediate economic costs can be high, especially in low-income settings where public investment is essential for development (Tsounta & Osueke, 2014).

A significant aspect of the 2023 IMF program is its focus on governance improvements and anti-corruption reforms. The IMF has mandated that Honduras enhance transparency within its public sector institutions to improve efficiency and reduce corruption, which remains a major issue hindering development (Candia Romano, 2023). Evidence suggests that governance improvements can lead to enhanced institutional efficiency and increase public confidence, which is crucial for long-term economic stability. Prior IMF-supported anti-corruption measures in other countries have shown promising results, indicating that transparency reforms can reduce leakage of public funds, thereby enabling higher-quality public services and investment (Dabla-Norris et al., 2011).

Another significant aspect is the comprehensive reforms with state-owned energy company Empresa Nacional de Energía Eléctrica (ENEE), targeting loss reduction and improving service provision. The IMF’s conditions include implementing a cost-recovery mechanism and reducing electricity theft, both of which aim to alleviate the fiscal burden on the government caused by ENEE's deficits (Candia Romano, 2023). Empirical studies highlight the economic benefits of energy sector reforms, particularly in developing countries where affordable and reliable energy is essential for business growth and competitiveness (Zhang et al., 2008). Conversely, in the short-term, electricity costs might go up, which could be hard on low-income families unless mitigated by subsidies or special programs. Lastly, another key aspect is the importance of environmental sustainability for Honduras's economic future. The IMF program supports climate-related initiatives, including adaptation measures to reduce the impact of natural disasters, which are a recurring threat to Honduras due to its geographic location (Candia Romano, 2023). Recent literature on climate resilience underscores its positive economic impact, particularly for vulnerable economies facing frequent climate risks (Hallegatte et al., 2016).

All of these aspects included in the program of 2023 seem like a step forward in the right direction, as it tackles what historically Honduras has struggled with, such as weak foundations, corruption, and external shocks. The arrangement seems ambitious, as it addresses structural challenges across multiple sectors simultaneously and its success will largely depend on Honduras's ability to manage the social costs associated with fiscal adjustments and ensure that governance reforms effectively reduce corruption. While the full impact of the 2023 program remains to be seen, prior studies on IMF interventions provide insights into potential outcomes. Research on IMF-supported programs in comparable economies indicates that while fiscal and governance reforms can lead to macroeconomic stability, they often entail short-term economic sacrifices that disproportionately impact vulnerable populations (Aiyar et al., 2013).

3.3.5 2009 Coup d'état - Response and Reforms

In 2009, Honduras experienced a significant political turmoil when President Manuel Zelaya was ousted in a coup d'état. This event grew from escalating tensions between Zelaya and other governmental branches, primarily due to his proposal for a non-binding referendum to convene a constituent assembly for constitutional reforms. Opponents argued that this move aimed to extend his presidential term, leading to his removal by the military and subsequent exile (Sosa, 2015). The coup plunged Honduras into political turmoil, resulting in international condemnation and economic isolation and in response to the resulting instability and economic

challenges, the post-coup government sought assistance from the IMF to stabilize the economy (Lefebvre, 2015). The IMF primarily utilized SBAs with Honduras following the coup. SBAs are designed to provide financial support to countries facing short-term balance of payments problems, allowing them to stabilize their economies while implementing necessary reforms (Presbitero & Zazzaro, 2010). The agreements typically include conditions that require the borrowing country to undertake specific economic policies aimed at restoring fiscal stability and promoting growth. The IMF allocated US\$164 million following the coup, however, this decision was cause for controversy and criticism as the move appeared to legitimize the coup government and contradicted global efforts to restore democracy in Honduras (Weisbrot, 2009). The decision seemed to spark polemics as the actions were likely driven by interests that were less about supporting democracy and more about maintaining economic stability and ensuring repayment obligations.

In 2010, the new elections were held and in October of that year, the IMF approved a new agreement with Honduras' new government of approximately US\$202 million (Gordon & Webber, 2013). The IMF mandated Honduras to implement strict fiscal measures to reduce its budget deficit, which had significantly increased during the political turmoil which coincided with the world recession. These measures included public sector reforms such as reducing public sector wage increases, freezing hiring in certain public sectors, and cutting non-essential spending (Lefebvre & Johnston, 2013). Other key fiscal and structural reforms included tax reforms, privatization of state-owned services, and currency stabilization (Gordon & Webber, 2013). The outcomes of these IMF agreements in Honduras were mixed, with both positive and negative impacts. As seen in Figure 3.13, Honduras has experienced positive economic growth when recovering after the coup and world recession in 2009, however, the truth is social indicators worsened. After 2009, Honduras' economic growth slowed to an average annual rate of 3.5 percent until 2013 from a previous rate of over 5.7 percent (Lefebvre & Johnston, 2013). In the two years after the coup, Honduras had the most rapid rise in inequality in Latin America with poverty and extreme poverty, both increasing from 51% in 2009 to 61.2% in 2012 (*National Socio-Demographic Profile: Honduras - CEPALSTAT Statistic Database and Publications*, n.d.). 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 (Lefebvre & Johnston, 2013).

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%

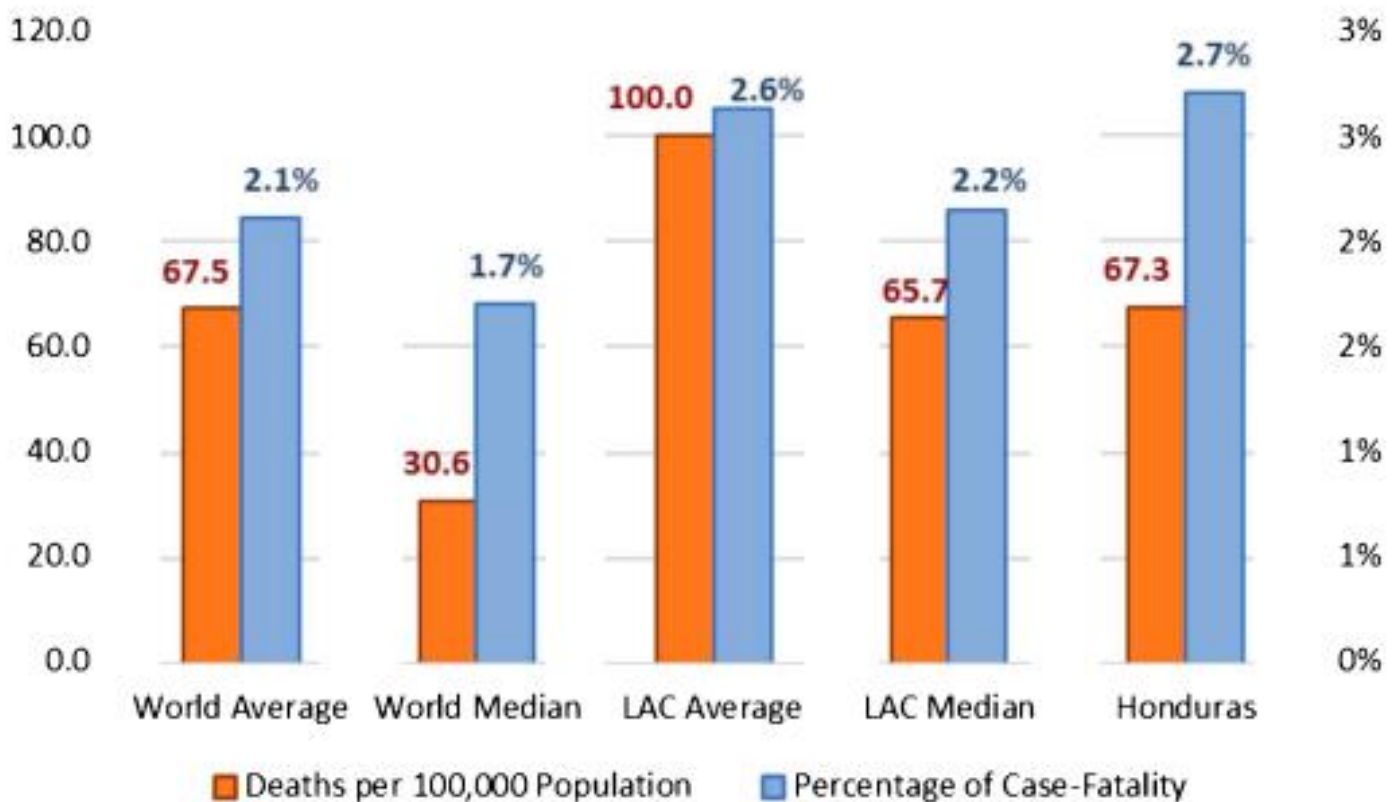
Source: IMF WEO, authors' calculations.

XIX Figure 3.13 - Average Annual GDP Growth in Central America - Source: (Lefebvre & Johnston, 2013)

3.3.6 When it Rains it Pours - 2020: Covid-19 Pandemic followed by Hurricanes Eta and Iota

In 2020, Honduras faced a dual crisis as the COVID-19 pandemic coincided with the devastating impacts of Hurricanes Eta and Iota. As seen in previous sections, Honduras was already grappling with significant socio-economic challenges, although in 2019, the country's poverty rate at approximately 52.3%, was the lowest it had been since before the world recession in 2009 (*National Socio-Demographic Profile: Honduras - CEPALSTAT Statistic Database and Publications*, n.d.). However, that is still a considerably high number and with a significant portion of the population living in extreme poverty.

The COVID-19 pandemic struck Honduras in March 2020, with the first confirmed case reported on March 10 (Farach & Romero, 2020). The health system, already strained from endemic diseases such as dengue, was quickly overwhelmed. Over one year after the first case, Honduras had reported over 247,000 confirmed COVID-19 cases and more than 6,500 deaths (Díaz-Bonilla et al., 2021). The pandemic exacerbated existing vulnerabilities in the health system. As seen in Figure 3.14, Honduras had a higher percentage of fatality per case than the Latin American average and also the world average, suggesting faults in their health system as a Covid-19 case would be theoretically more fatal than in other countries (Díaz-Bonilla et al., 2021).



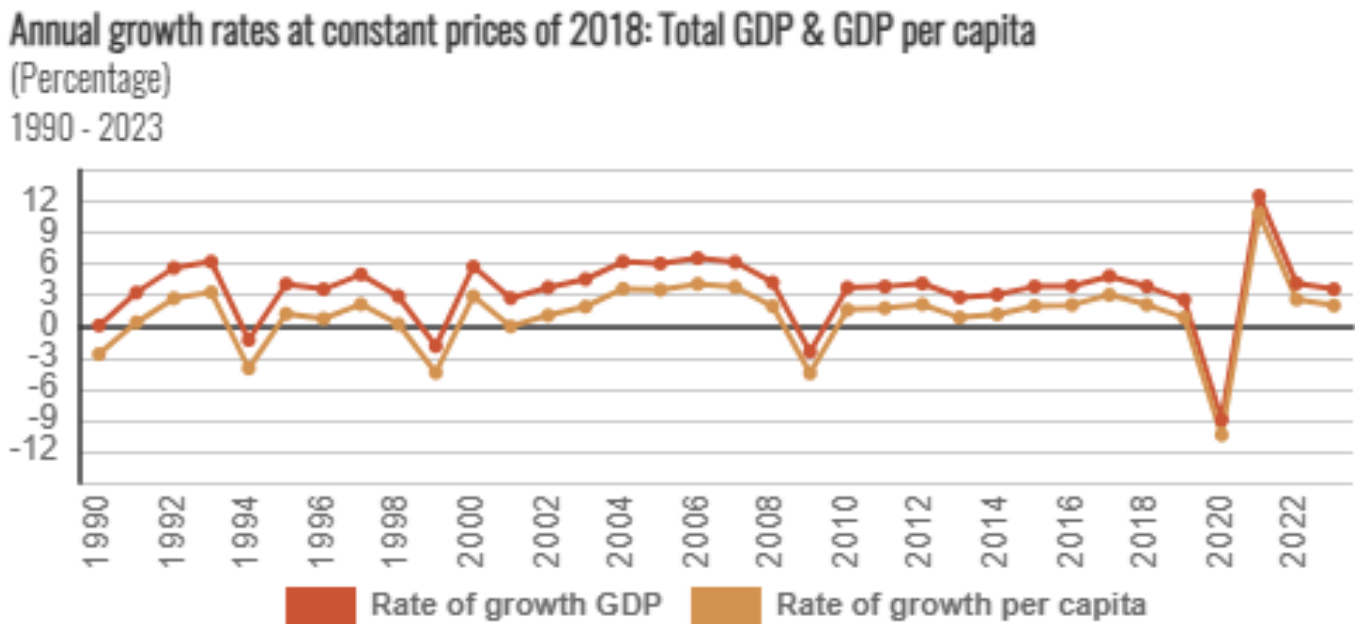
Source: Johns Hopkins University

XX Figure 3.14 - Deaths per 100,000 Population and Percentage of Case-Fatality - Source: (Díaz-Bonilla et al., 2021)

While still fighting off the ongoing pandemic, in November 2020, Hurricanes Eta and Iota made landfall quickly one after the other, causing catastrophic flooding and landslides that displaced thousands and destroyed infrastructure. One of the most affected industries was the agriculture sector, which accounts for more than 10% of the country’s GDP (“Economic Impacts of Pandemic Will Endure in Honduras,” 2021). The overall damage was estimated at over US\$2 billion, with the damages costing 44% of that amount, complete losses 52% and 4% at other costs (Cruz López et al., 2023). The hurricanes further complicated the pandemic response, as humanitarian efforts were hampered by COVID-19 restrictions, leading to a dire situation for many affected communities, as 10% of businesses were obligated to close shop, leading to the loss of many jobs in the country (Cruz López et al., 2023).

In response to these crises, and alongside other international aid, the IMF intervened by providing financial assistance to Honduras with an approved disbursement of approximately US\$143 million to help the country address the immediate challenges posed by the pandemic (Candia, 2020). This funding was intended to support health expenditures, bolster social safety

nets, and stabilize the economy. The IMF emphasized the importance of maintaining social spending, particularly in health and education, to mitigate the adverse effects of the crises on the most vulnerable populations (Gallagher et al., 2021).



XXI Figure 3.15 - Annual Growth Rates of Total GDP & GDP per capita - Source: (National Economic Profile: Honduras - CEPALSTAT Statistic Database and Publications, n.d.)

As seen in Figure 3.15, in terms of economic recovery, Honduras saw an incredible GDP growth rate of over 12% in 2021, a rebound that completely surpassed the contraction experience in 2020, even if in the following years, the GDP growth rates went back to usual levels of under 5% (National Economic Profile: Honduras - CEPALSTAT Statistic Database and Publications, n.d.). However, the recovery was uneven and sector-specific; sectors like agriculture, tourism, education, health, citizen security, infrastructure, and financing for small and medium-sized enterprises (SMEs) continued to struggle (Maciel et al., 2023). Poverty levels, which surged during the crisis, remain elevated, UNICEF estimating that the poverty rate dropping was at 64.1% in 2023, which remains higher than before the pandemic at 59.3% (UNICEF Honduras Country Office Annual Report 2023 | UNICEF, 2023). This has slowed the pace of recovery for Honduras's most vulnerable populations, especially rural communities and those in the informal economy, who continue to face limited job opportunities and income volatility. Debt sustainability concerns have also emerged due to the high fiscal deficits of 2020 and increased borrowing to support emergency responses. Honduras's public debt-to-GDP ratio, which was

approximately 42% before the crisis, increased to over 48% in 2021, raising questions about the country's ability to service this debt without hindering future development efforts (Maciel et al., 2023). While Honduras has made strides toward recovery, continued international support and effective domestic reforms will be essential for building a more resilient economy. Although the IMF provided quick and essential financial support to address the immediate impacts of the disasters, long-term recovery remains contingent on sustained reforms and climate adaptation strategies.

3.3.7 Interpretation - Honduras

The prolonged and complicated relationship between Honduras and the IMF highlights the complex nature of international financial interventions in developing nations. While IMF programs have consistently aimed to stabilize Honduras's macroeconomic conditions and address immediate fiscal challenges, they have often fallen short of achieving long-term, inclusive growth. Despite decades of IMF-supported reforms, Honduras remains entangled in persistent challenges, such as high poverty levels, inequality, and institutional fragility.

It is clear that the IMF's approach, while economically impactful in metrics like GDP growth and deficit reduction, has often prioritized generic fiscal and monetary policies over tailored social solutions. These policies, usually based on standard economic models, don't fully address Honduras's unique structural challenges and deeply rooted social disparities. As a result, while the economy has shown signs of stabilization, the social framework has continued to deteriorate, with poverty and inequality remaining largely affected.

The persistent struggles of Honduras reveal both the limitations of the IMF's approach and the country's own internal challenges. While IMF interventions provide much-needed financial stability, the dependence on standardized policies may exacerbate inequality and restrict broader social progress, especially when policies favor economic efficiency over social inclusivity. The structural adjustments, for instance, while beneficial on paper, often deepen divides, creating a “survival of the fittest” environment in a country where a significant portion of the population lacks the resources to thrive.

Ultimately, Honduras's path to sustainable development may require a paradigm shift—from a reliance on IMF-led economic stabilization measures to a holistic focus on institution-building, education, healthcare, and anti-corruption measures. Only by addressing these root social issues can Honduras begin to break the cycle of dependency and foster a more resilient and inclusive economy. While IMF assistance has been essential in addressing immediate economic needs,

true progress lies in tailoring solutions that bridge the social and economic gaps, fostering a foundation for genuine, long-lasting development.

Conclusion

This thesis has provided a comprehensive analysis of the IMF’s influence on Honduras, shedding light on the complex interplay between economic stabilization efforts and social outcomes. The findings indicate that IMF interventions, while instrumental in achieving macroeconomic stability, have often been accompanied by stringent conditionality measures that prioritize fiscal discipline and economic reform over social considerations. These measures, including public spending cuts and structural adjustments, have frequently exacerbated existing socio-economic inequalities, deepened poverty, and fueled public discontent.

The historical and socio-political context of Honduras has played a significant role in shaping the outcomes of IMF programs. The country’s dependence on external assistance, rooted in its colonial past and reinforced by periods of political instability and corruption, has made it particularly vulnerable to external influences. The research shows that while IMF programs aimed to address macroeconomic imbalances and promote sustainable growth, they often did so at the cost of public welfare. For instance, austerity measures implemented as part of IMF loan agreements have resulted in reduced public services and job losses, disproportionately impacting the most vulnerable segments of the population. This has perpetuated a cycle of economic stagnation, poverty, and social unrest.

The regional analysis of IMF policies in Latin America underscores that the experience of Honduras is not unique but part of a broader pattern observed across many developing countries. The IMF’s standard approach, characterized by a focus on austerity and economic liberalization, has been met with criticism for failing to consider country-specific contexts and the socio-economic realities of affected populations. In Honduras, this has translated to short-term financial stabilization at the expense of long-term development. The thesis highlights that while certain IMF initiatives, such as debt relief programs, have had positive impacts, their benefits have often been undermined by insufficient support for social investment and sustainable development.

To enhance the efficacy of future IMF interventions in Honduras and similar contexts, this thesis recommends a more nuanced approach. The IMF should incorporate greater flexibility in its conditionality, tailoring its programs to the unique socio-economic conditions of each

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country. Collaborative efforts with local stakeholders, including governments, non-governmental organizations, and civil society, are essential to ensure that economic reforms align with national development priorities and social needs. Additionally, enhancing transparency and fostering a dialogue that prioritizes social equity can help bridge the gap between economic policies and public acceptance, reducing the risk of social unrest.

In conclusion, while the IMF has played an important role in stabilizing the Honduran economy, its interventions have often lacked the adaptability needed to foster comprehensive, long-term development. This has been specially hindered by weak institutions and corruption. Moving forward, a shift towards a more balanced approach that equally values macroeconomic stability and social welfare is crucial. Such an approach could empower Honduras to break free from cycles of dependency, address its deep-rooted challenges, and pave the way for more resilient and inclusive growth.

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