**HONDURAS**

**1. General trends**

In 2011 the Honduran economy grew by 3.6% (versus 2.8% in 2010), driven by external demand. Inflation stood at 5.6%, which was below both the 2010 level of 6.5% and the preliminary target set by the central bank. The central government fiscal deficit narrowed only slightly, however, from 4.8% to 4.6% of GDP, while the balance-of-payments current account deficit widened from 6.2% to 8.6% of GDP, owing to higher fuel prices among other factors. In July 2011 the central bank reinstated the exchange-rate band and subsequently raised its monetary policy rate by 100 basis points in order to safeguard the external position. As a result, by year-end 2011 net international reserves had swelled by US$ 101.4 million.

 Lack of significant progress on reducing the fiscal deficit, despite higher tax receipts and a tighter monetary policy stance, precluded the extension of the stand-by arrangement with the International Monetary Fund (IMF), but negotiations may be resumed in the third quarter of 2012. As a key element of its monetary programme, the central bank has set an inflation target range of 5.5%-7.5% for 2012. ECLAC forecasts economic growth of around 3.2% in 2012.

**2. Economic policy**

**(a) Fiscal policy**

 At year-end 2011, the central government posted a deficit of 15.298 billion lempiras, equivalent to 4.6% of GDP (compared with 4.8% in 2010). Although the economic upswing and more efficient tax administration boosted total revenue by 12.7%, this was offset by a 12.1% rise in expenditure and thus had little impact on the deficit in GDP terms.

 Underlying the rise in tax receipts were efforts to strengthen the special taxpayers unit in order to target resources and make collection from the country’s largest taxpayers more efficient, as well as the implementation of new legislation for enhancing revenues, social equity and trimming public expenditure, and the entry into force of the new public security law on 1 October 2011. This act includes a tax on withdrawals from corporate bank accounts with balances of over 140,000 lempiras and on credit cards with limits of over 40,000 lempiras. These provisions are expected to generate an additional 2.2 billion lempiras in annualized terms.

 Higher receipts took the tax burden to 15% in 2011 (slightly more than in 2010, when it was 14.8%). Income from grants fell once again, this time by 10.9%, following a decline of 18.8% in 2010 (to 4.078 billion lempiras, or 1.7% of GDP).

 Total expenditure stood at 72.223 billion lempiras (21.9% of GDP), very similar to the 2010 figure (22.2% of GDP). Current expenditure continued to account for the bulk of spending and the increase over 2010 reflected debt service amounting to 1.4% of GDP and a rise in current transfers to the rest of the public sector and to the private sector for education, energy and urban transport subsidies.

 Borrowing needs pushed central government domestic debt up by 28.5%, to 48.08 billion lempiras (14.6% of GDP) in late 2011, versus 12.9% in 2010. Of this debt, 42.3% is owed to the non-financial public sector, 29.2% to the financial sector, 16% to the central bank and the remainder to other, non-financial, creditors. External borrowing stood at 19.3% of GDP (18.4% in 2010), with multilateral entities holding the largest share (64%) and the rest corresponding to bilateral and commercial debt.

 The combined public sector (which includes the central government, decentralized bodies, public institutions, local government, non-financial public companies and the central bank operating balance) posted a deficit of 2.8%, just under the 2010 figure of 2.9%, as the negative impact of the central government deficit was partially offset by financial surpluses in the public pension funds.

**(b) Monetary, exchange-rate and financial policy**

 Central bank policy continued to be directed towards preserving the currency’s domestic and external value. Accordingly, during 2011 the bank stepped up its open-market operations in order to tighten domestic liquidity, foster price stability and boost net international reserves. The monetary policy rate was raised by 50 basis points in both September and November, and stood at 5.5% at year-end 2011. In order to shield the external position from uncertainty in the international financial markets, the central bank reinstated the system of exchange-rate bands that had been in force from 1994 to January 2006.

 As a result, the currency closed the year with a slight nominal depreciation of 0.83%, while in real terms it depreciated by 0.9% (compared with real appreciation of 3.8% in 2010).

 Inflation stood at 5.6% at year-end 2011, reflecting tighter liquidity and the central bank’s use of the exchange-rate anchor through foreign exchange market interventions.

 To December 2011, credit assets in the financial system amounted to 158.389 billion lempiras (74.6% of which were extended in lempiras and the remainder in United States dollars). Total credit therefore grew by 10.4% versus 3.5% at year-end 2010.

 Household lending represented the lion’s share of this portfolio at 54.4% in December 2011, up 3.1 percentage points on the late-2010 figure. As a corollary, lending to business and the non-financial public sector slipped to 45.6% of the total. Of particular note is the increase in lending to local governments, in particular municipalities.

The efforts to maintain financial stability also helped to secure an improvement in the country’s international credit rating in 2011.

**(c) Trade policy**

 With a view to gaining access to new markets and attracting foreign investment, Honduras continued to engage in regional negotiations, including talks on the single free trade agreement with Mexico. The focus of current efforts is the imminent entry into force of the Association Agreement with the European Union, which was negotiated in May 2010 and whose final texts are due to be signed in Tegucigalpa in late June 2012.

**3. The main variables**

**(a) Economic activity**

 Real GDP growth of 3.6% in 2011 reflected strong export growth of 25.5% versus 19% in 2010. Export value exceeded US$ 7.2 billion and accounted for 41.4% of GDP. Domestic demand was also up by 6.1%, driven by an upturn of 3.4% in private final consumption (compared with 2.4% in 2010). Rising foreign investment pushed up private-sector gross fixed capital formation by 15.2%, well above the rate of 5.1% in 2010. Public investment continued to climb with support from multilateral agencies, but still slackened in relation to the previous year (up 8.9% versus 19% in 2010).

 GDP growth reflected an upturn across most of the productive sectors. The communications sector stood out with growth of 10.7% (versus 8.6% in 2010) on the back of higher foreign investment. Manufacturing expanded by 4.2%, a slight increase on the 4% recorded in 2010. The sector comprising agriculture, livestock, hunting, forestry and fishing grew by 5.6% (compared with 1.8% in 2010), mainly thanks to stronger production and exports of coffee and marine products. Overall, trade was up by 4% (compared with 3.2% in 2010). With credit more readily available, the construction industry registered growth of 4%, in sharp contrast to the 6.7% downturn observed in 2010.

**(b) Prices, wages and employment**

 As noted, year-on-year inflation stood at 5.6% in late 2011. The category comprising housing, electricity, gas and other fuels was the largest single contributor to the rise in the consumer price index (with 24.3%), owing mainly to higher rent and electricity costs. Other large contributors to consumer inflation were transport (21.8%) and food and non-alcoholic beverages (18%).

 The government approved an increase in the minimum monthly wage from 1 January 2011, based on a formula that includes the 2010 rates of economic growth and inflation (2.8% and 6.5%, respectively). As a result, the minimum monthly wage rose from 5,565 lempiras in 2010 to 6,122 lempiras in 2011.

 According to the permanent multipurpose household survey conducted by the national statistical office, the open unemployment rate stood 4.3% at the end of May 2011, compared with 3.9%
12 months earlier.

**(c) The external sector**

 The value of goods exports reached US$ 7.204 billion in 2011 (up 25.5% on the 2010 figures), reflecting higher volumes thanks to the upturn in external demand and, especially, higher prices for coffee, sugar and other traditional export products. The value of exports equated to 41.4% of GDP, versus 37.3% in 2010.

 With average coffee prices up by 59.8% and sales volumes by 19%, Honduras was the region’s largest coffee exporter with sales of US$ 1.377 billion. Sales of palm oil, bananas and farmed shrimp also climbed significantly. The value of intermediate goods exports stood at 3.29 billion lempiras, as opposed to 2.979 billion in 2010, thanks to higher sales of textiles to the United States and vehicle ignition wiring sets to automotive firms in Mexico.

 Imports stood at US$ 10.337 billion, up 20.9% over 2010. The largest increase was seen in fuel, lubricants and electrical energy, which rose by US$ 2.104 billion owing mainly to higher prices. Imports of manufacturing inputs also showed substantial growth. The fastest-growing import category, however, was capital goods (36%), in particular wind generators for clean energy projects.

 Family remittances recorded moderate growth again, rising by 7.8% to reach US$ 2.978 billion, but fell as a percentage of GDP from 16.8% in 2010 to 16.1% in 2011.

 Despite the dynamic export performance, the balance-of-payments current account deficit widened again, from 6.2% in GDP in 2010 to 8.6% at end-2011, owing to rising imports and weak growth in remittances.

 A more positive political climate and an upgrade in the country’s risk rating[[1]](#footnote-1) underpinned a jump in foreign direct investment to US$ 1.008 billion, or 5.8% of GDP. New investments went mainly to wind energy, maquila and the communications sector. The foreign direct investment figure may also include some repatriation of capital. In addition, foreign lines of credit showed a small net increase from US$ 463.4 million in 2010 to US$ 540.1 million in 2011.

 As a result of foreign trade and monetary and exchange-rate policy interventions, at year-end 2011 net international reserves had swelled by US$ 101.4 million in comparison with 2010.

**4. First quarter of 2012: general trends**

ECLAC forecasts that the Honduran economy could grow by 3.2% in 2012, in view of central bank efforts to maintain stability and the possibility of slacker external demand during the second half of 2012. The monetary authorities set the target range for inflation at 5.5%-7.5% for 2012.

 At the end of March year-on-year inflation stood at 5.7%, with a cumulative rate of 3.1%, lowering expectations that the inflation target would be met at the end of 2012.

 Given the trend in inflation, the open-market operations committee’s recommendations to the central bank board included two rises in the monetary policy rate, which accordingly increased to 7% as from 14 May. This course was aimed at easing inflationary pressures generated by rising aggregate domestic demand and steadying the value of the lempira.

 In view of the stabilization efforts and the slowdown in external demand expected in the second semester, the central bank forecasts a current account deficit of 8.8% of GDP at the end of the year.

 In the first quarter, exports were up by 13.9% over the year-earlier period, at US$ 1.3 billion. The value of imports was US$ 2.356 billion, making the trade deficit US$ 1.057 billion, 10.9% larger than in first-quarter 2011.

 On the fiscal front, fresh efforts are likely to be made to reduce the central government deficit to 3.7% of GDP in line with IMF recommendations, since the government has expressed a wish to continue talks with the Fund during the third quarter of 2012.

1. Standard and Poor’s raised Honduras’ credit rating from B to B+ in June 2011 and *Euromoney* reported in its March edition that Honduras had moved up 34 places in the country risk rankings. [↑](#footnote-ref-1)