

HONDURAS

1. General trends

Economic growth in Honduras picked up in 2015, reaching 3.6%, compared with 3.1% in 2014. This performance was mainly the result of favourable external conditions —particularly the expansion of the United States economy and the sharp fall in international oil prices— and the recovery of the coffee sector. Regarding aggregate demand, rising private investment (8.2%) was key to the uptick in 2015, while private consumption also posted solid growth (3.5%). The central government deficit was 3.1% of GDP at the end of 2015 (narrowing substantially from 4.4% the previous year), reflecting the Government's fiscal consolidation efforts under the arrangement signed with the International Monetary Fund (IMF) in December 2014. The lower cost of oil imports and the sharp increase in remittances helped to narrow the current account deficit from 7.5% of GDP in 2014 to 6.4% in 2015. Inflation as of December 2015 stood at 2.4%, below the floor of the central bank's target range of 3.75%-5.75%. Despite the expansion of the economy, the employment situation deteriorated in 2015, as the national open unemployment rate reached 7.3% (up from 5.3% in 2014).

The Fiscal Responsibility Act, enacted in April 2016, is notable among the policy measures adopted. The Act limits the nominal increase in public current expenditure to the average rate of GDP growth over the last 10 years and imposes a fiscal deficit ceiling of 2.5% of GDP. However, it is expected to be implemented gradually, with the limits coming into force in 2019. In February 2016, the Government presented the national economic development programme, Honduras 20/20, an ambitious five-year plan whose aim is to create 600,000 jobs by investing some US\$ 13 billion in four key economic sectors: tourism, textiles, intermediate manufacturing and business support services.

According to ECLAC estimates for 2016, Honduras is expected to post more modest economic growth of around 3.4%, on the back of favourable external conditions —sustained economic growth in the United States and persistently low fuel prices— and a significant increase in domestic investment, both private and public. The financial intermediation and communications sectors will drive this growth.

After two consecutive years of major fiscal adjustments that led to a narrowing of the central government's deficit by 4.8 percentage points of GDP between 2013 and 2015, the deficit is expected to widen in 2016 to 3.6% of GDP. As mentioned above, greater public investment will be a significant contributor to this result. Regarding the external accounts, the expected rise in international coffee prices (despite prices dipping in the first months of 2016), together with the increase in remittances and maquila industry exports, and low oil prices, will lead to a drop in the current account deficit to 6.1% of GDP. Year-on-year to May, inflation remained below the floor of the central bank's target range for 2016 (3.5%-5.5%), at a rate of 2.4%. However, it is expected to converge to the floor of the target range by the year's end.

2. Economic policy

(a) Fiscal policy

The central government was able to cut the deficit significantly in 2015, down to 3.1% of GDP (from 4.4% in 2014), outperforming its target of 3.8% for the second year in a row, owing to a significant

increase in tax revenue and greater control over public expenditure. The primary deficit was 0.4% of GDP, compared with 1.9% in 2014.

At year-end 2015, central government total income was up by 11.4% in real terms, as tax revenues rose by 12.8% to an amount equivalent to 17.4% of GDP, thanks in large part to the implementation of measures established in the fiscal reform adopted in late 2013 (the Act to Strengthen Public Finances, Control Tax Exemptions and Combat Tax Evasion).

Public spending increased by 4.3% in real terms, with current spending up by 6.3%, as a result of hikes in spending on goods and services (31.4%) and interest payments (15.2%). Much of current spending goes on debt servicing and current transfers (largely used to balance the financial accounts of State-owned enterprises, notably the National Electric Power Company (ENEE)). However, it should be noted that current transfers contracted by 1.5% in real terms in 2015, due largely to ENEE internal reforms to improve efficiency and reduce losses, both technical and non-technical. The drop in oil prices during 2015 also helped bring down the Company's costs of generating and supplying electricity. These factors were reflected in the fact that the Company's losses fell from US\$ 357 million in 2014 to US\$ 9.7 million in 2015.

Capital spending contracted by 2.6% in real terms, as capital transfers decreased by 4.2%, which was also largely attributable to the improved financial situation of the country's main State-owned enterprises.

Central government public debt stood at 46.3% of GDP at the end of the fourth quarter of 2015, of which 29.3 percentage points corresponded to external debt and 17.0 percentage points to domestic debt. Despite the increase in debt levels since the close of 2014 (45.0% of GDP), this figure reveals that the pace of growth has slowed significantly. One factor was the progress made in reining in the public deficit, which was also reflected in improved sovereign risk ratings. In May 2015, Moody's upgraded the country's outlook from stable to positive, and, in July, Standard and Poor's raised its rating from B to B+.

The deficit is expected to widen in 2016, but will remain within the parameters established under the IMF agreement. The main factors behind the rise will be higher capital spending—mostly channelled towards road infrastructure projects, specifically building and repairing roads—and stricter oversight of current spending. In April 2016, income grew by 11.7% in real terms year-on-year, while spending increased by 5.4%.

(b) Monetary policy

In a climate of low inflationary pressure and after keeping the interest rate unchanged since May 2012, the central bank adopted an expansionary monetary policy in 2015 and lowered the base rate three times during the year, by a total of 75 basis points, bringing the rate to 6.25% in July 2015.

Nonetheless, transmission of monetary policy to the broader financial system has proven weak. While interest rates declined in nominal terms over the course of the year, in real terms they went up significantly. In the fourth quarter of 2015, the weighted average nominal lending and deposit rates fell by 0.62 and 0.75 percentage points, respectively, compared with the first quarter of the year, settling at 20.14% and 6.29%. However, real lending and deposit rates went up by 1.0 and 0.7 percentage points, respectively, reaching 17.4% and 3.86%.

Total lending to the private sector showed nominal growth of 10.5% in 2015, slightly less than in 2014 (10.7%). National-currency lending expanded more than foreign-currency lending (12.0% compared with 6.7%), reflecting borrowers' growing preference for national-currency loans as the interest rate differential has narrowed.

During the first half of 2016 and in response to the persistently low inflationary pressure, the central bank cut the monetary policy interest rate twice, by a total of 75 basis points, down to 5.50%. As of April, total lending had increased by 10.3% year-on-year.

(c) Exchange-rate policy

In 2015, the central bank maintained an exchange-rate band of +/-7% around a base rate. By December 2015, the nominal value of the lempira had depreciated by 3.8% against the dollar, compared with the end of 2014.

The real, bilateral exchange rate against the dollar reflected a real depreciation of the lempira of 1.8% and revealed that the nominal depreciation was enough to offset rising domestic prices.

At the close of 2015, international reserves stood at US\$ 3.822 billion, US\$ 305.8 million more than in 2014 and equivalent to 4.6 months of imports.

In 2016, the lempira is expected to follow a similar trajectory to that seen in 2015. By May 2016, the lempira had depreciated in nominal terms by 1.4% from its value at the end of 2015. On 23 June 2016, international reserves had reached an amount of US\$ 3.912 billion.

(d) Other policies

In February 2015, Guatemala and Honduras signed an agreement to form a customs union and create a bilateral free trade area. The agreement was ratified by the parliaments of both countries and entered into force in May 2016.

In September 2015, Congress approved a free trade agreement with Peru. The agreement seeks to improve market access conditions and to establish clear rules and practices that promote the trade of goods, services and investments between the two countries. In addition, in November 2015, the authorities of Ecuador and Honduras signed a memorandum of understanding as part of the first round of negotiations for a treaty, the aim of which will be to lower trade tariffs between the two countries.

3. The main variables

(a) The external sector

In 2015, the value of exports contracted slightly (0.4%) and the value of imports grew marginally (0.2%). The value of general merchandise exports dropped by 3.4%, largely as a result of the falling prices for various export commodities, such as coffee, palm oil and shrimp. Despite the fall in the price of coffee (0.5%), the sharp increase in the volume of exports (18.2%) led to a 17.6% rise in terms of value. However, the fall in exports of palm oil (21.7%) and shrimp (27.0%), among others, led to negative growth in general merchandise exports, which was partially offset by a 2.7% increase in maquila exports. One contributing factor was the economic growth in the United States, which is the main destination for

Honduran exports (17.7% of total exports), followed by the other Central American countries (11.1%) and Germany (4.3%).

Imports posted moderate growth in 2015, despite the dramatic fall in the value of fuel imports (35.5%), owing to the 40.1% decline in the price of imported fuel. By contrast and reflecting the bullish performance of remittances, imports of consumer goods grew significantly (11.1%). Imports of capital goods (5.4%) and intermediate industrial goods (21.0%) also grew, mainly as a result of machinery and consumable goods imports by solar energy firms.

The trade deficit remained relatively stable in 2015, at 15.2% of GDP. However, a significant increase in the current transfers surplus, owing to growth of 8.8% in remittances (totalling US\$ 3.650 billion or 18.1% of GDP), led to a narrowing of the current account deficit from 7.5% in 2014 to 6.4% at the close of 2015.

On the financial account, foreign direct investment (FDI) flows received by Honduras in 2015 amounted to US\$ 1.204 billion, 5.2% above 2014 levels and equivalent to 5.9% of GDP. The bulk of these flows were reinvested profits, mainly in the telecommunications sector. The main source of FDI was Panama (US\$ 195 million), followed by Canada (US\$ 163 million) and the United States (US\$ 137 million).

In the first quarter of 2016, general merchandise exports declined by 11.9% year-on-year, after the annualized price of coffee fell by 25.9% during the first two months of the year leading to a 27.3% drop in the value of coffee exports. Meanwhile, imports fell even more sharply during this period, by 15.9%, due to the sustained downward trend in fuel prices, which lowered the oil bill by 31.6%.

(b) Economic activity

Economic growth was 3.6% in 2015, up from 3.1% the previous year. In supply and demand terms, the faster growth rate reflected a 15.7% rise in gross domestic investment, due, in large part, to investments in machinery and equipment by five solar energy firms that began operations in Honduras in 2015. More generally, it also reflects greater investor confidence as the goals set out in the agreement with IMF are achieved. Private consumption rose 3.5%, while public consumption grew at a more moderate rate of 1.6%, owing to government efforts to exercise greater control over current expenditures.

The most buoyant sectors were financial intermediation (8.5%), electricity and water (6.5%) and communications (4.7%). Meanwhile, a sound performance by coffee producers boosted growth in the agricultural sector (3.3%). The recovery of the construction sector was also notable, with growth of 2.1%, after two consecutive years of contraction. This positive result was attributable to the brisk recovery of the sector during the fourth quarter of 2015, with year-on-year growth of 13.4%, reversing the downward trend of the previous nine months. The upswing in the construction sector was instrumental in accelerating economic growth in the fourth quarter of 2015 (4.5%), after adverse weather conditions and a decline in domestic demand had led to a slowdown in the second and third quarters.

In April 2016, the year-on-year variation of the trend-cycle series of the monthly index of economic activity (IMAE) was 3.3%, down from 3.5% in the same period in 2015. The best performing sectors were financial intermediation, electricity and water, agriculture and communications.

(c) Prices, wages and employment

Year-on-year inflation in December 2015 was 2.4%, below the floor of the central bank's target range for 2015, owing mainly to the fall in oil prices, which generated a 1.1% reduction in the transport prices index. The categories exerting the strongest upward pressure on prices were education (8.3%) and alcoholic beverages and tobacco (6.8%).

The Permanent Multi-purpose Household Survey revealed a serious deterioration in the employment situation as of June 2015, with an open unemployment rate of 7.3%, compared with 5.3% the year before. This was due largely to the increase of 2.3 percentage points in the participation rate, up to 58.3%. On the wages front, the real minimum wage index increased by 2.8% in 2015. According to the tripartite minimum wage agreement adopted in February 2014, nominal wage increases will range between 5.5% and 8% in 2016, depending on the size of the company, as measured by number of employees.

Year-on-year inflation in May 2016 was 2.4%, still below the floor of the target range, set at between 3.5% and 5.5% for 2016. Inflation rates continue to be kept low by the downward trend in prices of fuel and, more recently, other raw materials.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	6.2	4.2	-2.4	3.7	3.8	4.1	2.8	3.1	3.6
Per capita gross domestic product	4.3	2.4	-4.1	2.1	2.2	2.6	1.3	1.6	2.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.5	1.9	-1.9	1.8	6.5	10.7	3.4	2.7	3.2
Mining and quarrying	-13.0	-9.3	-0.9	-4.0	-10.6	-3.2	-6.8	-5.1	-3.5
Manufacturing	5.0	3.4	-8.1	4.5	4.4	1.8	3.4	1.5	3.1
Electricity, gas and water	21.8	4.3	4.3	-0.2	3.6	2.9	-2.5	1.3	7.3
Construction	6.6	7.1	-13.3	-2.4	4.4	2.4	-2.5	-8.2	1.0
Wholesale and retail commerce, restaurants and hotels	3.8	3.1	-10.5	3.4	4.2	3.8	2.1	2.0	2.9
Transport, storage and communications	12.7	12.3	8.8	7.4	6.6	5.9	4.7	4.3	4.5
Financial institutions, insurance, real estate and business services	15.4	8.2	0.1	5.7	6.2	5.1	4.1	6.2	6.7
Community, social and personal services	15.4	8.2	0.1	5.7	6.2	5.1	4.1	6.2	6.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.1	3.2	1.2	2.8	2.8	4.0	3.7	2.1	2.9
Government consumption	12.8	4.3	6.9	-1.0	-1.0	2.3	3.2	-1.1	1.6
Private consumption	6.1	3.0	0.1	3.6	3.6	4.3	3.8	2.7	3.1
Gross capital formation	24.7	8.9	-44.2	12.0	24.1	-2.7	-11.4	6.8	...
Exports (goods and services)	2.5	0.9	-15.9	15.7	8.4	9.8	-1.3	1.6	3.0
Imports (goods and services)	10.9	2.4	-26.2	15.2	12.7	6.3	-4.1	1.5	7.6
Investment and saving c/	Porcentajes de GDP								
Gross capital formation	33.7	36.1	20.6	21.9	26.0	24.6	21.8	22.1	25.2
National saving	24.6	20.7	16.8	17.6	18.1	15.8	12.1	14.5	18.8
External saving	9.0	15.3	3.8	4.3	7.9	8.7	9.6	7.6	6.4
Balance of payments	Millions of dollars								
Current account balance	-1,116	-2,128	-557	-682	-1,409	-1,581	-1,763	-1,444	-1,291
Goods balance	-3,104	-4,255	-2,545	-2,643	-3,149	-3,012	-3,147	-2,998	-3,056
Exports, f.o.b.	5,784	6,199	4,827	6,264	7,977	8,359	7,805	8,072	8,041
Imports, f.o.b.	8,888	10,453	7,372	8,907	11,126	11,371	10,953	11,070	11,097
Services trade balance	-288	-326	-18	-193	-423	-591	-668	-698	-690
Income balance	-395	-521	-632	-727	-974	-1,266	-1,353	-1,322	-1,380
Net current transfers	2,671	2,973	2,638	2,882	3,138	3,288	3,405	3,572	3,835
Capital and financial balance d/	930	1,971	83	1,248	1,489	1,290	2,235	1,904	1,584
Net foreign direct investment	926	1,007	505	971	1,012	851	992	1,120	1,113
Other capital movements	4	964	-422	278	476	439	1,244	784	472
Overall balance	-186	-157	-474	567	80	-291	473	459	293
Variation in reserve assets e/	109	78	354	-592	-86	283	-485	-459	-303
Other financing	78	79	120	25	6	8	12	-1	10
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	97.5	94.2	87.1	86.1	85.4	83.8	84.8	82.4	81.9
Terms of trade for goods (index: 2010=100)	97.0	91.1	97.3	100.0	108.4	94.6	88.6	88.8	93.5
Net resource transfer (millions of dollars)	612	1,530	-429	546	521	32	894	581	214
Total gross external debt (millions of dollars)	3,190	3,499	3,365	3,785	4,208	4,861	6,709	7,184	7,462
Employment	Average annual rates								
Labour force participation rate g/	50.7	51.0	53.1	53.6	51.9	50.8	53.7	56.0	58.3
Open unemployment rate h/	4.0	4.1	4.9	6.4	6.8	5.6	6.0	7.5	8.8
Visible underemployment rate h/	4.3	3.5	4.4	6.7	10.6	10.1	11.6	10.4	13.0

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	8.9	10.8	3.0	6.5	5.6	5.4	4.9	5.8	2.4
Variation in nominal exchange rate (annual average)	0.0	0.0	0.0	0.0	0.0	2.2	4.1	2.0	6.6
Variation in minimum real wage	2.8	0.2	70.4	-4.5	-0.2	0.4	0.4	-1.1	2.1
Nominal deposit rate i/	5.6	6.3	7.2	6.6	5.7	6.1	7.6	7.3	6.7
Nominal lending rate j/	16.6	17.9	19.4	18.9	18.6	18.4	20.1	20.6	20.7
Central government	Percentajes of GDP								
Total revenue	19.1	19.8	17.1	16.9	17.0	16.7	17.0	18.7	19.5
Tax revenue	16.4	16.1	14.2	14.4	14.8	14.7	15.1	16.7	17.7
Total expenditure	22.2	22.4	23.1	21.5	21.6	22.7	24.9	23.1	22.6
Current expenditure	18.1	17.5	18.6	17.9	16.9	17.9	19.8	17.9	17.9
Interest k/	0.7	0.6	0.7	1.0	1.3	1.7	2.1	2.3	2.5
Capital expenditure	4.1	4.8	5.1	3.7	4.6	4.6	5.2	5.2	4.7
Primary balance	-2.4	-1.9	-5.3	-3.7	-3.2	-4.3	-5.8	-2.1	-0.6
Overall balance	-3.1	-2.5	-6.0	-4.7	-4.6	-6.0	-7.9	-4.4	-3.0
Central government public debt	17.4	20.1	23.9	30.4	32.5	35.4	43.8	45.6	45.6
Domestic	2.8	4.9	8.3	13.3	15.0	15.8	16.1	17.1	17.2
External	14.6	15.4	15.7	17.1	17.5	19.6	27.7	28.5	28.4
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	33.4	33.1	35.6	33.3	35.2	38.1	38.0	38.5	37.3
To the public sector	-2.1	-1.1	1.5	2.1	4.1	4.1	2.1	2.5	1.1
To the private sector	52.8	52.6	51.7	48.7	48.0	51.9	55.4	56.4	56.5
Others	-17.3	-18.4	-17.6	-17.4	-16.9	-17.9	-19.5	-20.3	-20.3
Monetary base	11.3	11.5	10.3	10.7	10.2	10.0	10.5	11.1	11.0
Money (M1)	13.0	11.8	11.8	12.5	12.3	10.6	10.7	11.1	11.6
M2	42.8	39.0	37.1	38.7	39.0	37.8	39.2	39.8	40.0
Foreign-currency deposits	14.0	14.0	13.7	12.6	12.5	13.3	13.9	15.4	14.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2000 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Urban total.

i/ Weighted average rate of deposit rates.

j/ Weighted average of lending rates.

k/ Central bank data include accrued interest on the public debt.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	3,057	3,239	3,166	3,255	3,542	3,812	3,793	3,700	3,943	4,123 b/
Real effective exchange rate (index: 2005=100) c/	80.5	81.6	84.5	83.1	82.4	82.9	81.5	80.9	82.4	83.4 d/
Consumer prices (12-month percentage variation)	5.8	6.2	6.1	5.8	3.7	3.6	2.8	2.4	2.5	2.4 d/
Average nominal exchange rate (lempiras per dollar)	19.7	20.0	21.1	21.2	21.7	21.9	22.0	21.8	22.6	22.6
Nominal interest rates (average annualized percentages)										
Deposit rate e/	7.4	7.3	7.2	7.1	7.0	6.8	6.5	6.3	6.1	6.2 b/
Lending rate f/	20.5	20.6	20.6	20.7	20.8	20.9	20.8	20.1	19.8	19.6 b/
Interbank rate	8.1	8.0	7.5	7.6	6.6	6.2	6.0	6.7	6.7	6.4
Monetary policy rates	7.0	7.0	7.0	7.0	6.8	6.5	6.3	6.3	6.1	5.7
Domestic credit (variation from same quarter of preceding year)	7.2	8.2	6.2	5.5	9.1	8.1	7.0	7.4	4.5	3.9 b/
Non-performing loans as a percentage of total credit	1.1	1.2	1.1	1.1	1.1	1.2	1.2	1.1	1.1	1.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of April.

c/ Quarterly average, weighted by the value of goods exports and imports.

d/ Figures as of May.

e/ Weighted average rate of deposit rates.

f/ Weighted average of lending rates.