## Honduras

ECLAC estimates the growth of the Honduran economy at 3.5% in 2016, just down from 3.6% in 2015, owing in part to a drop in foreign demand, which will be partially offset by domestic consumption on the back of steady growth in remittances and the low international oil price. The fastest-growing sectors in 2016 have been agriculture, construction and power generation. The central government deficit is expected to expand to 3.6% of GDP at year-end (compared to 3.1% of GDP in 2015), owing to a sharp increase in public investment, though it will be within the parameters established in the accord with the International Monetary Fund (IMF). The fall in oil imports, increased remittances and a significant drop in capital goods imports will narrow the current account deficit to 5.7% of GDP in 2016, from 6.4% the year before. Inflation is estimated to end the year close to the floor of the central bank's target range of 3.5%-5.5%. The national open unemployment rate rose to 7.4% (compared with 7.3% in 2015).

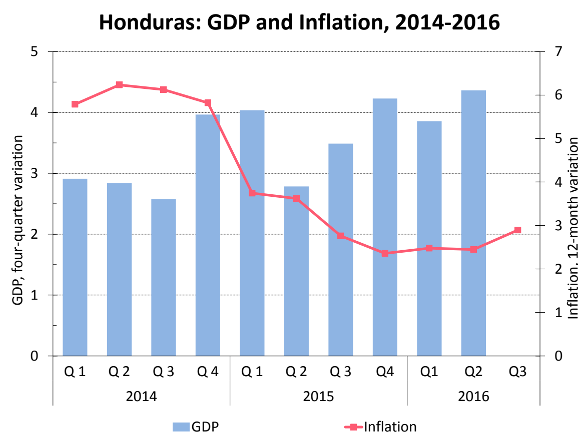
The Fiscal Responsibility Act adopted in April 2016 limits the annual increase in current expenditure and caps the non-financial public sector (NFPS) deficit at 1.0% of GDP, both measures to become effective in 2019. In February 2016, the government presented the national economic development programme, Honduras 20/20, aiming to create 600,000 jobs over five years on the basis of investment in six key sectors (tourism, the textile industry, intermediate manufacturing, business support services, housing and agribusiness). In August 2016, the agroindustry sector was granted exemption from the 15% sales tax, to encourage investment in that industry.

After two consecutive years of major fiscal adjustments (which narrowed the central government deficit from 7.9% of GDP in 2013 to 3.1% of GDP in 2015), significant public investment will widen the deficit in 2016. At July 2016, central government total income had grown by 11.4%, in real terms, as tax revenues had risen by 13.6%, to an amount equivalent to 10.5% of GDP (compared to 9.7% of GDP in the year-earlier period), on the back of government efforts to improve tax revenue efficiency and effectiveness.

Total central government spending increased by 11.7% in real terms year-on-year in the first six months of the year, including a jump of 24.7% in capital spending, owing mainly to infrastructure investment —specifically in highway construction and upgrading. Current spending showed a more modest increase of 8.8%, despite current transfer growth of 21.3%, largely on account of outflows to balance the financial accounts of the National Electric Power Company (ENEE).

At the close of the second quarter of 2016, central government debt stood at 46% of GDP (of which 29 percentage points corresponded to external debt and 17 percentage points to domestic debt), the same as at the end of 2015. Public debt stability reflected progress made in reducing the public deficit.

Amid low inflation, the central bank adopted an expansionary monetary policy in 2016 and lowered the base rate twice —in March and June— for a 75 basis point cut in total, leaving the




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

rate at 5.5%. The banking legal reserve requirement was reduced as well, by one percentage point, to boost lending and make it cheaper. The measures adopted have led to interest rate reductions in the financial system. In the first eight months of 2016, the weighted average nominal lending and deposit rates fell by 0.88 and 0.27 percentage points, respectively, compared with the December 2015 averages, settling at 19.14% and 5.84%. Real lending and deposit rates came down by 1.03 and 0.42 percentage points, respectively, as a weighted average, reaching 16.22% and 3.25%. In the first eight months of the year, total lending to the private sector showed year-on-year growth of 10.2%, similar to that of 2015.

By September 2016, the lempira had depreciated by 3% in nominal terms against the dollar from its 2015 year-end value, while the real exchange rate showed a depreciation of 1.4%. Net international reserves stood at US$ 3.707 billion (18.0% of GDP) at 27 October, just below the end-2015 figure.

**Honduras: main economic indicators, 2014-2016**

| | 2014 | 2015 | 2016 [a] |
|---|---|---|---|
| | Annual growth rate | | |
| Gross domestic product | 3.1 | 3.6 | 3.5 |
| Per capita gross domestic product | 1.6 | 2.2 | 2.1 |
| Consumer prices | 5.8 | 2.4 | 2.9 [b] |
| Money (M1) | 8.4 | 19.0 | 9.8 [c] |
| Real effective exchange rate [d] | -2.8 | -0.7 | 1.4 [b] |
| Terms of trade | 2.0 | 5.4 | 1.1 |
| | Annual average percentage | | |
| Open urban unemployment rate | 7.5 | 8.8 | ... |
| Central government | | | |
| Overall balance / GDP | -4.4 | -3.0 | -3.2 |
| Nominal deposit rate ? | 7.3 | 6.7 | 6.0 [b] |
| Nominal lending rate [f] | 20.6 | 20.7 | 19.5 [b] |
| | Millions of dollars | | |
| Exports of goods and services | 9,159 | 9,145 | 8,912 |
| Imports of goods and services | 12,854 | 12,891 | 12,416 |
| Current account balance | -1,444 | -1,291 | -1,123 |
| Capital and financial balance [g] | 1,904 | 1,584 | 1,246 |
| Overall balance | 459 | 293 | 122 |

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Figures as of August
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Weighted average of deposit rates.
f/ Weighted average of some lending rates.
g/ Includes errors and omissions.

Merchandise exports and imports posted year-on-year decreases of 5.5% and 9.4%, respectively, in the first half of 2016. Coffee exports were down by 22.6% in value —as a result of sharp fall in the international price— while the value of palm oil, banana and shrimp exports grew by 39.5%, 9.2% and 32.4%, respectively. A 7.1% rise in consumer goods imports, reflecting buoyant domestic demand, was offset by a drop of 22.3% in fuel imports and of 20.3% in capital goods. The fall in capital goods imports reflected one-off machinery and input purchases in 2015 by five solar energy companies to set up their local operations, which set a very high basis of comparison for the following year. Family remittances showed year-on-year growth of 4.8% in the first eight months of 2016.

Foreign direct investment (FDI) flows in the first half of 2016 jumped by 19.3% year-on-year, owing to greater investor confidence in the economy. The bulk of these flows were reinvested profits, mainly in the telecommunications and manufacturing sectors.

GDP growth was 4.1% in the first half of the year. The best-performing sectors included electricity (up 13.2%), financial intermediation (9.8%), agriculture (5.7%) and construction (4.4%). On the demand side, total consumption rose by 3.8%, driven by an increase of 4.2% in private consumption. Despite the growth in public investment, total gross capital formation registered a drop of 15.5%. This, like the performance of the electrical power sector, was a reflection of the aforementioned one-off investments by the private sector in solar energy projects in 2015.

Year-on-year inflation in October was 2.8%, below the floor of the central bank's target range, owing to the fall in oil and food prices. Year-on-year core inflation came to 3.4%.

The national employment rate edged down from 54% to 53.2%. However, due to an accompanying drop in labour market participation, the jobless rate registered only a marginal increase.

For 2017, real GDP growth is projected at around 3.4%. Amid uncertain conditions and risks on the international scene, domestic demand will be the main driver of growth in the Honduran economy. The construction, agriculture and energy sectors are expected to remain buoyant. The expected rise in the international oil price will affect inflation, which will converge with the central bank's target range. It will also push up the value of fuel imports, though these will be offset by stronger performances by coffee, palm oil and shrimp exports, and by steady growth in family remittances. Consequently, the current account deficit will likely remain unchanged. The projected gains in tax collection and cautious public expenditure will bring the fiscal deficit to around 3.4% of GDP in 2017.