

Honduras

1. General trends

The Honduran economy showed signs of recovery in 2010, posting growth of 2.8% compared with a 2.1% contraction in 2009. At 6.5%, inflation was within the target range (between 5% and 7%), thanks to a rallying economy and higher prices for petroleum and staple foods, especially beans and wheat.

In September 2010 Honduras signed an agreement with the International Monetary Fund (IMF) that will expand access to international financial markets and help build a better business climate in recognition of the country's efforts to achieve fiscal consolidation and stabilize the economy.

In May 2011, IMF carried out its first review of the agreement and concluded that Honduras was meeting its targets. ECLAC forecasts that the economy will grow by 3% in 2011 and the central bank has set an inflation target of between 7% and 9%, projecting an end-of-year current account deficit of around 7%.

2. Economic policy

(a) Fiscal policy

At year-end 2010 the central government deficit was 13.970 billion lempiras, equivalent to 4.8% of GDP (versus 6.2% in 2009). This improvement may be attributed to a more efficient tax system and implementation of legislation to enhance revenues, social equity and public expenditure. In particular, tax collection was reformed through the creation of a special unit to focus resources and ensure collection of taxes from the country's largest taxpayers. The government will request technical support from IMF and ECLAC to continue strengthening this unit, which will handle approximately 80% of all tax revenue.

Following implementation of the new act, tax revenues rose by 10.6%, resulting in a tax burden of 14.8% (slightly

below the target set in the IMF programme, but higher than the 2009 figure of 14.4%). Income from grants was 18.8% lower than in 2009, at 4.078 billion lempiras (1.7% of GDP).

Total expenditure showed an increase at 64.461 billion lempiras (22.2% of GDP), giving a central government deficit of 4.8% of GDP in late 2010. After surging by 11.7% in 2009, current expenditure grew at the more moderate pace of 4.5% in 2010, but continued to account for more than 83% of total expenditure.

The non-financial public sector deficit saw a significant improvement in 2010, at 7.829 billion lempiras (2.7% of GDP), versus 12.494 billion lempiras in 2009 (4.6% of GDP). This was primarily due to higher central government revenues and efforts to contain spending by State-owned

enterprises. Lower subsidies boosted net revenues from the national electric power company's sales. Current spending rose by 5.4% to 79.525 billion lempiras (27.3% of GDP), owing to higher salaries and interest payments on domestic debt, which stood at 37.420 billion lempiras (12.9% of GDP) by the end of the year.

(b) Monetary policy

The goal of central bank policy is to ensure exchange-rate and price stability. During 2010 the bank therefore stepped up its open market operations with a view to reducing the money supply, fostering price stability and boosting net international reserves.

As a result, year-on-year inflation to December 2010 stood at 6.5% (within the target range of 5%-7%), while the average over the year was 4.7%. Net international reserves swelled by US\$ 592 million at year-end 2010, and the nominal exchange rate accordingly remained at 18.895 lempiras to the dollar, its level since 2005. To encourage exchange-rate stability, the central bank continued to intervene in the market through the electronic foreign currency trading system.

The monetary policy rate remained the same as in August 2009 (4.5%). However, to December 2010 the seven-day open market operations interest rate (solely for operations with banks in the system) edged down 1.24 percentage points on December 2009 (4.5%), in connection with rising demand for central bank bonds among banks in the system. Private sector lending remained depressed, with growth of 3.5% to December 2010 (versus 2.9% and 11.7% in 2009 and 2008, respectively). This reflects the fragility of the economic recovery, the banks' preference for public bonds and a lending rate that is still high in real terms (14.3%). This last point is borne out by reports that large companies have looked to overseas banks for financing, seeking a lower interest rate and taking advantage of an exchange rate that is trending towards real appreciation.

The existing reserve requirements for local and foreign currency of 6% and 12%, respectively, were maintained. Similarly, the bank continued to require a mandatory investment of 12% in local currency and 10% in foreign currency.

Honduras moved closer towards incorporation into the interconnected payments system for Central America and the Dominican Republic, whose aim is to facilitate payments for trade in goods and services between member

States by providing better access to secure and cost-effective cross-border payments. This was an important aspect of the 2010 financial openness programme.

Total assets in the banking system amounted to 236.665 billion lempiras in December 2010 (87.6% of GDP), demonstrating reasonable levels of leverage with a total of 17 banks whose ratio of capital to risk-weighted assets is, on average, 11.56%. In terms of asset concentration, the six largest banks own 75% of the assets. The quality of the assets in the system also improved, since the delinquency rate as a percentage of the total portfolio dropped from 4.7% in December 2009 to 3.7% in December 2010, thanks to the economic upturn and the banks' portfolio recovery efforts. Loan loss provisions with regard to non-performing loans rose from 86.2% in December 2009 to 118.9% in December 2010.

Bank loans were primarily used for the construction of storage facilities for industrial use and real estate (34%), consumption (16.5%), manufacturing (13.6%) and commerce (12%). The share of loans granted in dollars remained unchanged at around 30%.

The most important advances in the process of strengthening the financial system were (i) approval of the standards for boosting financial transparency, culture and customer service; (ii) implementation of the new regulations on authorizing private credit bureaux (iii) approval of the new regulations on setting up and running stock exchanges; (iv) regulations for securities firms and firms brokering publicly offered securities; (v) capital adequacy standards for banks, savings and loan associations and finance companies; and (vi) new liquidity risk standards.

Thanks to the financial stability measures implemented by the government, no changes were made to the country's investment rating. Standard & Poor's B rating and Moody's B2 rating were maintained, both with a stable outlook.

(c) Trade policy

According to the World Trade Organization (WTO), Honduras made significant progress in 2010 in reducing its non-tariff barriers, in particular by simplifying the technical regulations and procedures relating to sanitary and phytosanitary measures. It also modernized the government procurement system, making it easier for external bidders to participate.

3. The main variables

(a) Economic activity

As political life returned to normal, domestic consumption rose and external demand recovered. Accordingly, in 2010 the economy rallied and posted GDP growth of 2.8%. Exports expanded in real terms by 6%, accounting for 37.3% of GDP, while imports rose by 10.2%, in contrast to a contraction of 27.7% in 2009. Domestic demand was also up, fuelled by a 2.3% rise in consumption that was driven in turn by a 2.4% increase in private consumption (associated with higher family remittances and the conditional transfers programme) and a 2.1% increase in government consumption. Having plunged 45.7% in 2009, gross capital formation grew by 18.8% in 2010. A major contributory factor was the recovery of public investment as multilateral organizations reopened credit lines.

Increased production was the result of growth in most production sectors. The manufacturing sector expanded by 4.0% for example (versus a fall of 8% in 2009); and commerce grew by 3.2% (as against a drop of 10% in 2009), mainly because of import growth and the recovery of family remittances, which amounted to US\$ 2.594 billion (up 5.1% on 2009). There was also an upswing in communications, although this was more restrained than during the previous period (8.6% as against 15.7% in 2009), aided in particular by a marked increase in foreign investment in mobile telephony, cable television and Internet services. The transport sector was up 2.4% (following a decrease of 4.2% in 2009). The sector comprising agriculture, forestry, fishing and hunting grew by 1.8%, which contrasted with a drop of 1.4% in 2009. The construction industry was still depressed, but to a lesser extent than the previous year, dropping by 6.7% as opposed to 10.8% in 2009. The contraction was less severe thanks to an increase in industrial construction (storage facilities), which practically doubled in 2010, given the ongoing downturn in house-building.

b) Prices, wages and employment

As previously mentioned, at the end of 2010 year-on-year inflation stood at 6.5%, largely due to higher prices for food and non-alcoholic beverages. This sector was responsible for 42.2% of the general increase in prices. The price rises stemmed from the upward trend

of international prices for certain foods, especially beans and wheat, and from weather-related domestic supply problems. Housing, water, electricity, gas and other fuels (which contributed 28.2% to the general price index) were also up (9.1%), owing to higher international prices for oil and oil products. Higher prices were also seen in education (7.1%), transport (5.7%), and alcoholic beverages and tobacco (5.3%). The only sector in which prices went down was communications (12.8%), thanks to cheaper international phone calls.

The government approved a minimum wage increase of between 3% and 7% for companies with more than 20 workers, with effect from 1 September 2010. The minimum wage for microenterprises and small businesses with between 1 and 20 workers remains at 5,500 lempiras in urban areas and 4,055 lempiras in rural areas.

A survey conducted in May 2010 revealed that, at that time, 42.1% of the total population (8 million people) were economically active, while the open unemployment rate was 3.9%. Of those who were employed, 54.1% were based in a rural area and 45.9% in an urban area.

The capacity of the labour market to absorb the workforce, measured by the average amount of time spent seeking work, was 2.7 months in urban areas and 2.9 months in rural areas. This contrasts with the figures for 2009, which were 2.9 months and 3.1 months, respectively.

(c) The external sector

At year-end 2010, exports stood at US\$ 5.742 billion (19% up on year-end 2009), thanks to the recovery of external demand and higher prices for coffee, sugar and other traditional export products.

In the case of coffee (which represents 27% of total exports) the average price rose from US\$ 118.70 to US\$ 154.40 per 46 kg bag. Sales also rose for other products, such as bananas, African palm oil, shrimp, gold and zinc.

Exports of processed products were up, especially knitwear, clothing, and vehicle instrument panels and wire harnesses. The United States continued to be the main destination for processed products from Honduras (84.5%).

Imports also grew —by 17.1%, amounting to US\$ 8.549 billion, as against a drop of 30.2% in 2009. This stems from higher fuel and food prices, among

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
Annual growth rates									
Gross domestic product	3.8	4.5	6.2	6.1	6.6	6.2	4.2	-2.1	2.8
Per capita gross domestic product	1.7	2.5	4.1	3.9	4.4	4.1	2.2	-4.1	0.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.5	2.3	7.2	-2.3	7.6	5.5	1.9	-1.4	1.8
Mining	-5.8	8.5	-5.6	-0.6	-3.5	-13.0	-9.3	-1.5	-2.4
Manufacturing	7.8	6.4	4.0	7.0	4.5	5.0	3.4	-8.0	4.0
Electricity, gas and water	-13.6	-20.6	6.2	52.4	22.6	21.8	4.3	-3.0	2.9
Construction	-11.5	3.8	1.2	-2.3	9.4	6.6	7.1	-10.8	-6.7
Wholesale and retail commerce, restaurants and hotels	3.3	2.1	4.2	5.4	5.5	3.8	3.1	-8.4	3.0
Transport, storage and communications	2.4	11.5	13.5	16.6	11.6	12.7	12.3	8.8	6.7
Financial institutions, insurance, real estate and business services	9.7	8.6	12.4	12.3	15.1	15.4	8.2	0.9	1.7
Community, social and personal services	6.9	1.3	6.2	5.3	6.8
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.0	4.3	5.0	6.8	7.9	7.1	3.2	-1.7	2.3
Government consumption	3.1	3.7	5.4	10.1	3.9	12.8	4.3	4.5	2.1
Private consumption	4.2	4.4	5.0	6.1	8.7	6.1	3.0	-2.9	2.4
Gross capital formation	-4.6	4.9	21.9	-1.2	7.2	24.7	8.9	-45.7	18.8
Exports (goods and services)	10.0	8.7	13.2	5.3	1.6	2.5	0.9	-12.1	6.0
Imports (goods and services)	5.9	7.9	16.2	3.6	4.1	10.9	2.4	-27.7	10.2
Percentages of GDP									
Investment and saving^c									
Gross capital formation	24.3	25.3	29.7	27.6	28.3	33.7	36.1	19.8	23.0
National saving	20.7	18.6	22.0	24.6	24.6	24.6	20.7	16.2	16.8
External saving	3.6	6.7	7.6	3.0	3.7	9.0	15.3	3.6	6.2
Millions of dollars									
Balance of payments									
Current account balance	-282	-553	-678	-290	-404	-1 116	-2 128	-516	-955
Goods balance	-637	-1 020	-1 293	-1 497	-2 027	-3 104	-4 255	-2 475	-2 808
Exports, f.o.b.	3 745	3 754	4 534	5 048	5 277	5 784	6 199	4 825	5 742
Imports, f.o.b.	4 382	4 774	5 827	6 545	7 303	8 888	10 453	7 299	8 550
Services trade balance	-190	-162	-204	-229	-291	-288	-326	-150	-310
Income balance	-301	-362	-446	-460	-537	-395	-521	-530	-598
Net current transfers	846	991	1 265	1 895	2 450	2 671	2 973	2 639	2 760
Capital and financial balance ^d	272	358	1 040	477	687	930	1 971	91	1 523
Net foreign direct investment	269	391	553	599	669	926	1 007	523	799
Other capital movements	3	-32	487	-122	19	4	964	-431	725
Overall balance	-10	-194	362	187	283	-186	-157	-424	569
Variation in reserve assets ^e	-106	97	-510	-346	-282	109	78	354	-592
Other financing	115	98	149	159	-1	78	79	71	24
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^f	96.9	98.5	100.9	100.6	98.3	98.0	95.1	87.8	86.8
Terms of trade for goods (index: 2005=100)	96.9	98.5	100.9	100.6	98.3	98.0	95.1	87.8	86.8
Net resource transfer (millions of dollars)	86	94	743	177	149	612	1530	-368	949
Gross external debt (millions of dollars)	5 025	5 343	6 023	5 135	3 935	3 190	3 464	3 345	3 773
Average annual rates									
Employment									
Labour force participation rate ^g	51.7	50.0	50.6	50.9	50.7	50.7	51.0	53.1	53.6
Open unemployment rate ^h	6.1	7.6	8.0	6.5	4.9	4.0	4.1	4.9	6.4
Visible underemployment rate ⁱ	4.7	5.9	6.5	6.9	5.4	4.3	3.5	4.4	6.7
Annual percentages									
Prices									
Variation in consumer prices (December-December)	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0	6.5
Variation in nominal exchange rate (annual average)	6.3	5.5	5.1	3.4	0.4	0.0	0.0	-0.0	0.0
Variation in real minimum wage	2.1	8.6	0.8	5.8	5.1	2.8	0.2	70.4	-4.5
Nominal deposit rate ^j	13.7	11.5	11.1	10.9	9.3	7.8	9.5	10.8	9.8
Nominal lending rate ^k	22.7	20.8	19.9	18.8	17.4	16.6	17.9	19.4	18.9

Table 1 (concluded)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
	Percentages of GDP								
Central government									
Total revenue ^l	16.4	16.5	17.2	17.6	18.1	19.1	19.8	17.5	17.4
Current revenue	15.3	15.6	16.4	16.4	16.6	17.6	17.8	15.7	16.0
Tax revenue	13.3	13.7	14.5	14.5	15.2	16.4	16.1	14.6	14.8
Total expenditure ^m	20.3	21.3	19.8	19.8	19.2	22.2	22.4	23.8	22.2
Current expenditure	15.2	16.2	14.8	15.3	16.0	18.1	17.5	19.2	18.4
Interest ⁿ	1.0	1.0	1.1	1.1	1.0	0.7	0.6	0.8	1.0
Capital expenditure	4.2	4.6	5.0	4.5	3.3	4.1	4.8	5.3	3.8
Primary balance	-2.9	-3.7	-1.5	-1.1	-0.1	-2.4	-1.9	-5.5	-3.8
Overall balance	-3.9	-4.7	-2.6	-2.2	-1.1	-3.1	-2.5	-6.2	-4.8
Central government debt	55.5	60.7	59.6	44.7	28.7	17.4	20.1	24.5	30.0
Domestic	3.9	6.3	4.6	3.8	3.3	2.8	4.9	8.6	12.9
External	51.6	54.4	55.0	40.9	25.4	14.6	15.2	16.0	17.1
Money and credit ^o									
Domestic credit ^p	23.7	27.0	24.1	23.8	27.3	34.1	33.2	34.4	32.3
To the public sector	-2.4	0.3	-1.2	-1.1	-2.7	-2.1	-1.1	1.6	2.1
To the private sector	36.0	37.6	38.4	39.4	45.1	52.8	52.4	53.1	50.5
Others	-9.9	-10.9	-13.2	-14.6	-15.2	-16.6	-18.2	-20.3	-20.4
Liquidity (M3)	46.6	47.3	49.3	50.9	55.1	56.8	53.0	52.2	52.8
Currency outside banks and local-currency deposits (M2)	34.1	34.6	35.5	37.4	41.3	42.8	39.0	38.2	39.8
Foreign-currency deposits	12.5	12.7	13.8	13.5	13.8	14.0	14.0	14.1	13.0

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 figures in local currency expressed in dollars at current prices.

^d Includes errors and omissions.

^e A minus sign (-) denotes an increase in reserves.

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

^g Economically active population as a percentage of the working-age population; nationwide total.

^h Percentage of the economically active population; nationwide total.

ⁱ Percentage of the working population; urban total.

^j Weighted average rate on time deposits.

^k Weighted average of the system lending rates.

^l Includes grants and recovery of interest.

^m Includes net lending.

ⁿ Central bank data include accrued interest on the public debt.

^o The monetary figures are end-of-year stocks.

^p Includes securities issued for monetary regulation and short- and long-term external loans.

other factors. Fuels and lubricants represent 20.8% of total imports and grew by 32.6% (versus a slump of 43% in 2009). Goods for processing also performed well, increasing by 18.1% over 2009, thanks to rebounding external demand, largely from the United States.

Family remittances recovered somewhat, climbing 5.1% and amounting to US\$ 2.594 billion. This equated to 26.9% of the total inflows to the current account and to 16.8% of GDP.

Foreign direct investment rallied strongly, with inflows of US\$ 798 million. New investment was up 52.9%, especially in the communications and maquila sectors. This figure may include some repatriated capital.

The return of political stability and a sharp contraction in the central bank's net domestic assets contributed to

an adjustment of the money supply on the external side and produced a positive balance of US\$ 1.247 billion in the financial account. This is attributable to a substantial increase in foreign direct investment (from US\$ 532 million in 2009 to US\$ 798 million in 2010), to a rise of US\$ 380 million in government external liabilities in 2010 (versus US\$ 32 million in 2009) and to an expansion of US\$ 17 million in bank external liabilities, versus a contraction of US\$ 299 million in 2009.

In the light of the above, international reserves swelled by approximately US\$ 600 million (3.5% of GDP), amounting to US\$ 2.719 billion at year-end 2010 (equivalent to 3.8 months of goods and services imports). Nevertheless, the current account deficit as a percentage of GDP widened from 3.7% in 2009 to 6.2% in 2010.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2009				2010 ^a				2011 ^a	
	I	II	III	IV	I	II	III	IV	I	II ^b
Gross domestic product (variation from same quarter of preceding year) ^c	-2.7	-6.3	-2.8	-1.6	3.7	4.1	1.8	5.3	4.4	...
Goods exports, f.o.b. (millions of dollars) ^d	635	648	548	473	768	751	585	645	1 136	401
Goods imports, c.i.f. (millions of dollars)	1 524	1 553	1 457	1 536	1 737	1 814	1 717	1 865	2 094	682
Gross international reserves (millions of dollars)	2 784	2 658	2 261	2 174	2 250	2 264	2 126	2 775	3 046	...
Real effective exchange rate (index: 2000=100) ^e	86.8	87.8	88.0	88.7	87.8	86.9	86.3	86.1	86.5	87.0
Consumer prices (12-month percentage variation)	8.8	5.4	3.1	3.0	4.0	4.2	5.0	6.5	6.6	7.7
Average nominal exchange rate (lempiras per dollar)	18.89	18.89	18.89	18.90	18.90	18.90	18.90	18.90	18.90	18.89
Nominal interest rates (annualized percentages)										
Deposit rate ^f	12.1	10.7	10.0	10.6	10.7	10.3	9.5	8.8	8.7	...
Lending rate ^g	19.8	19.8	19.2	19.0	19.0	18.9	18.7	18.9	19.0	...
Interbank rate	7.2	5.6	6.4	5.9	5.7	5.3	5.0	5.1	5.2	5.4 ^h
Domestic credit (variation from same quarter of preceding year)	4.4	-0.1	-3.2	5.8	8.8	7.2	8.4	1.9	6.4	10.0 ^h
Non-performing loans as a percentage of total credit	2.2	2.1	1.8	1.6	1.8	1.8	1.9	1.2	1.4	1.5

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

^a Preliminary figures.

^b Data to May.

^c Based on figures in local currency at constant 2000 prices.

^d Does not include maquila activities.

^e Quarterly average, weighted by the value of goods exports and imports.

^f Weighted average rate on time deposits.

^g Weighted average of the system lending rates.

^h Data to April.