

## Honduras

The Honduran economy will grow by an estimated 2.6% in 2013 (as against 3.9% in 2012), slowed by the weak performance of its main trading partners and the impact of both the fall in the price of coffee and coffee-leaf rust on its coffee exports. In respect of other variables, ECLAC estimates that the central government deficit will be between 6.0% and 6.5% and inflation will be around 6.0% in 2013. In 2012 the central government fiscal deficit reached 6% of GDP and inflation, 5.4%.

The fiscal position remains a cause for concern, with ECLAC estimating the central government deficit for 2013 to be between 6.0 and 6.5%. Total central government revenue from January to September 2013 was up 7.0% on the same period in 2012. Little change in the tax burden relative to GDP is expected from 2012, with tax receipts remaining stable at an average of 14.1% of GDP in the first nine months of the year (compared with 14.2% in the same period in 2012). Meanwhile, net expenditure to September increased by 5.1% on September 2012 figures, largely as a result of the significant increase (42.3%) in debt interest payments.

In the third quarter of 2013, Honduras's total public debt stood at 39% of GDP (as against 35% of GDP at the end of 2012). The rate at which the debt has been growing in recent years could impact future public finances given the high relative weight of debt-service payments in a country with a low tax burden. In 2012, US\$ 941.3 million was needed to service the public and publicly guaranteed private debt; this represents around 31% of total central government revenue. The great majority of domestic public debt will fall due in the next five years. In August Standard & Poor's downgraded the credit rating of Honduras from B+ to B.

A general election was held in November 2013 that saw Juan Orlando Hernández of the National Party win the presidency without, however, gaining a parliamentary majority for his party.

Notable legislative measures taken in 2013 include initiatives aimed at improving the performance of certain State enterprises, such as the National Electric Power Company (ENEE), and the passing of the Organic Act on Employment and Development Zones (known as "ZEDES") which lays down rules for the establishment and governance of such zones, known as model cities.

The central bank kept the monetary policy rate at 7%, but the third quarter of the year saw increases in the real and nominal lending and borrowing rates over fourth-quarter 2012 levels. Total lending from the financial sector (from other credit institutions) to the private sector trended downwards in 2013 despite moderate growth in the past few months. In September, the nominal year-on-year growth rate for such lending was 13.1%, with real growth of 8.2%.

The central bank maintained the exchange-rate-band system and continued to allocate foreign exchange by auction. In October 2013, the lempira registered a nominal depreciation of 3.0% on year-end 2012. The real effective exchange rate index calculated by ECLAC, meanwhile, showed almost no variation.

In respect of trade policy, in August 2013 the trade pillar of the Association Agreement between Central America and the European Union entered into force. In May, Honduras rejoined the PetroCaribe oil alliance, having been excluded since 2009 and the Canada-Honduras Free Trade Agreement was signed in November.

In the first half of the year exports and imports of goods (f.o.b.) were both down (5.4% and 3.2% respectively) on the same period in 2012. The fall in exports of general goods in the year to August was attributable mainly to a decline in traditional exports, mostly coffee, which fell by 45.3%, affected by both the coffee-leaf rust and a year-on-year decrease of 30.7% in the price of coffee. The central bank forecasts a current-account deficit of 8.1% of GDP for 2013.

Despite sluggish global growth, the financial account saw inflows of foreign direct investment totalling US\$ 537 million in the first half of the year, an increase of 14.7% from the same period in 2012. Investment from the United States and Panama was down substantially, with Mexico and the United States being the largest investors in Honduras.

International reserves stood at US\$ 2.5 billion at 14 November, down US\$ 71 million on year-end 2012. Calculations using data on f.o.b. imports in the first half of 2013 show that this represents less than three months of import cover. Migrant remittances were up by 9.1% year-on-year at 14 November, stronger growth than seen in the same period in 2012.

In view of the slowdown of the Honduran economy, ECLAC expects 2.6% growth in 2013. In September, the trend-cycle monthly index of economic activity showed significantly slower growth than in the previous year (a year-on-year variation of 0.7% in September 2013, as opposed to 4.0% at the same time in 2012). In September 2013 most of the sectors of the economy saw lower rates of growth than in September 2012. ECLAC forecasts slightly higher growth in 2014 (3.0%), since the international economy is expected to recover to some extent.

Year-on-year inflation stood at 4.6% in October, lower than the rate recorded in the same month in 2012 (5.7%). ECLAC expects this rate to increase towards the end of the year to reach around 6.0% in December 2013, still well within the central bank's target range.

The employment situation has worsened slightly, with the urban open unemployment rate reaching 6.0% in May (as against 5.6% in May 2012). The urban participation rate, meanwhile, increased from 51.2% to 54.3%. The real minimum wage (calculated using the average inflation rate in the year to October) was up by 0.9% on 2012 figures.

#### Honduras: main economic indicators, 2011-2013

	2011	2012	2013 <sup>a</sup>
<b>Annual growth rate</b>			
Gross domestic product	3.8	3.9	2.6
Per capita gross domestic product	1.8	1.9	0.6
Consumer prices	5.6	5.4	4.6 <sup>b</sup>
Money (M1)	17.7	2.1	-7.3 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-1.4	-1.4	1.3 <sup>b</sup>
Terms of trade	8.4	-12.7	-9.1
<b>Annual average percentage</b>			
Open urban unemployment rate	6.8	5.6	6.0
Central government			
Overall balance / GDP	-4.6	-6.0	-6.0
Monetary policy rate	4.8	6.6	7.0 <sup>b</sup>
Nominal lending rate <sup>e</sup>	18.6	18.4	20.0 <sup>b</sup>
<b>Millions of dollars</b>			
Exports of goods and services	9 000	9 340	9 100
Imports of goods and services	12 572	12 886	12 692
Current account balance	-1 408	-1 587	-1 038
Capital and financial balance <sup>f</sup>	1 477	1 304	1 028
Overall balance	69	-283	-11

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

<sup>a</sup> Estimates.

<sup>b</sup> Figures as of October.

<sup>c</sup> Figures as of September.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Weighted average of some lending rates.

<sup>f</sup> Includes errors and omissions.