

## HONDURAS

### 1. General trends

The Honduran economy experienced a slowdown in 2013, posting growth of 2.6% compared with 3.9% in 2012. In terms of overall supply and demand, this less buoyant growth was attributable to a reduction of 3.9% in private-sector gross fixed capital formation, especially in construction, and the stagnation (an expansion of just 0.2%) in goods and services exports caused by the slowing growth of the country's trading partners. The most dynamic sectors were financial intermediation (+ 5.6%) and communications (+ 5.8%).

ECLAC forecasts growth of less than 3% for 2014, since in March 2014 the trend-cycle series of the monthly index of economic activity showed lower year-on-year variation than in March 2013. Coffee exports are expected to begin to bounce back, but are unlikely to return to levels seen in 2012. Private investment is also expected to rise in 2014, given that 2013 was an election year, and lower public consumption is forecast owing to the fiscal adjustment.

Inflation to December 2013 was 4.9%, within the target range set by the Central Bank of Honduras of 4.5% to 6.5%. The Central Bank also expects the consumer price index to December 2014 to be within its target range of 5.5% to 7.5% for the year. In May 2014, year-on-year inflation stood at 6.2%.

The central government deficit was 7.6% of GDP, outstripping Ministry of Finance projections of 6.0%. This was attributable to higher expenditure, notably consumption spending. In its monetary programme the central bank projected, on the basis of Ministry of Finance calculations, a deficit of 21.413 billion lempiras in 2014, down from the 29.649 billion lempira deficit posted in 2013. In drawing up the 2014 budget, the Ministry of Finance forecast a central government deficit of 4.7% of GDP in 2014. The recent tax reform is expected to boost public finances.

High levels of public debt have been seen in recent years, exerting increased pressure on public finances. In the fourth quarter of 2013 central government debt stood at the equivalent of 43% of GDP, and is expected to continue to grow over the course of 2014.

The current account deficit equalled 8.9% of GDP in 2013 (as against 8.6% in 2012), owing to falling exports. General goods imports and exports to March 2014 were below levels seen in March 2013.

### 2. Economic policy

#### (a) Fiscal policy

Honduras continued to apply an expansionary fiscal policy in 2013, with the central government deficit standing at 7.6% of GDP at the end of the year, above the Ministry of Finance's projections of 6.0%. The non-financial public sector deficit stood at 7.1% of GDP. The fiscal situation is a major cause for concern in the country given that the deficit has widened in recent years. A tightening of fiscal policy is expected in 2014.

Although 2013 saw an increase of 6.4% in central government revenue, current expenditure rose significantly (by 14.9%), chiefly as a result of higher debt interest payments (40.9%), current transfers (29.2%) and spending on goods and services (14.6%). Interest payments have risen as the country's debt has spiralled in recent years. Decentralized and deconcentrated agencies were the principal beneficiaries of the current transfers.

The rise in central government revenue came as a result of year-on-year growth of 6.0% in tax receipts (excluding the public security tax), notably a 13.7% rise in income tax and a 2.4% year-on-year increase in sales tax. Central government tax revenues were equivalent to 14.5% of GDP in 2013, slightly lower to 2012. One of the major challenges facing the country is to increase its tax base.

Numerous reforms have been undertaken in recent months, including the wide-ranging tax reform passed in late 2013 with a view to increasing receipts and improving oversight of spending. Among other measures, it raises sales tax from 12% to 15%, removes several tax exemptions, introduces a new income tax and changes the eligibility criteria for the electricity subsidy. Several amendments have been made since its adoption, however, including the removal of an article reducing the number of products in the basic basket that is exempt from sales tax. The Act to Streamline Public Administration, Improve Citizen Services and Strengthen Transparency in Government entered into force in January 2014 and constitutes another major reform. It empowers the president to merge, reorganize or dissolve internal units, and in this connection the related executive decree established seven sector-specific cabinets.

The government also continues to work to restructure loss-making State-owned enterprises such as the Empresa Nacional de Energía Eléctrica (National Electric Power Company), and new reforms are expected to be approved this year. The Honduran Social Security Institute (IHSS), the National Pension Institute for Teachers (INPREMA) and National Retirement and Pension Institute for Civil Servants and Government Employees (INJUPEMP) are also being reorganized with a view to boosting their financial sustainability. In early 2014 an executive decree entered into force to intervene in the IHSS as a result of an actuarial crisis. In February, changes to INPREMA came into effect, establishing pension savings accounts for teachers and, in April, INJUPEMP was restructured with a view to bringing the actuarial situation under control. . Other measures include calling on the national anti-evasion task force to intervene in all customs offices owing to irregularities and possible contraband.

In drawing up the 2014 budget, the Ministry of Finance forecast that the central government deficit would be equivalent to 4.7 of GDP in 2014. The fiscal balance will depend on the success of the fiscal reform passed at the end of 2013. As for income and expenditure in 2014, the Ministry of Finance expects that tax revenues will grow significantly, to equal 15.4% of GDP (as against 14.7% of GDP in 2013) and that capital expenditure, as a percentage of GDP, will fall. Fiscal data to March 2014 showed a 20.4% year-on-year rise in tax receipts and a 9.2% increase in current expenditure.

In respect of public debt, in 2013 the government issued two sovereign bonds on international markets for a total of US\$ 1 billion, with coupons yielding 7.50% and 8.75% respectively. A proportion of the funds raised were earmarked for the 2014 budget. As noted above, Honduras's debt has grown in recent years, with Ministry of Finance figures showing central government debt of 43% of GDP in the fourth quarter of 2013 (up from 35% of GDP at the end of 2012). The country's floating debt, which is not reported in official figures, must also be taken into consideration, however. The growing debt is exerting increased pressure on public finances as a result of interest payments and maturities. The central government's primary deficit stood at 5.4% of GDP in 2013. Interest payments to service the public debt grew by 40.9% in 2013, accounting for 10.4% of current expenditure. Fiscal figures to March 2014

showed that debt interest has continued to escalate. At the same time, as a result of the large amount of domestic debt due to mature in the coming years, the government is attempting to improve its profile with a view to lengthening the maturity structure. Nonetheless, in February 2014 Moody's downgraded the country's credit rating.

**(b) Monetary policy**

The central bank has kept the monetary policy rate unchanged at 7.0% since May 2012.

In the fourth quarter of 2013, the nominal lending and deposit rates rose on average on the fourth quarter of 2012 (by 1.23 and 0.78 percentage points respectively). Real interest rates also increased over the same period (the lending rate increased by 1.98 percentage points and the deposit rate by 1.5 percentage points). In the first quarter of 2014, however, real rates fell on average on the fourth quarter of 2013.

Total credit to the private sector grew by 11.2% year-on-year in nominal terms (compared with 16.9% in 2012). Lending to other non-financial firms was up 13.8%, while credit to households and non-profit institutions serving households increased by 8.9%. Far stronger growth was seen in lending in foreign currencies (+18.6%) than in the national currency (+8.4%). The central bank expects total credit to the private sector to expand by 10% in 2014. Total lending grew by 11.6% to April 2014. Lending to households and non-profit institutions serving households has fallen over the past 12 months, but a slight uptick was seen in April 2014.

**(c) Exchange-rate policy**

In 2013, the central bank continued to use the exchange-rate band of a margin of  $\pm 7\%$  in respect of a base price. In July 2013 the method for calculating the base price for the exchange rate was changed to better reflect movements in the variables determining the price. The central bank has stated that it will continue to use the exchange-rate band in 2014. In December 2013, the lempira had depreciated by 4.1% in nominal terms in respect of December 2012, a downward trend that has continued in the first few months of 2014.

The real effective exchange rate as calculated by ECLAC (expressed as an index), meanwhile, declined from 85.00 in December 2013 to 78.64 in March 2014, an appreciation of the lempira in real terms, meaning that the aforementioned nominal depreciation has not fully offset domestic price rises.

**(d) Other policies**

The free-trade agreement between Honduras and Canada was signed in November 2013 and is pending ratification in the respective parliaments.

As for relations with the European Union, the trade chapter of the Association Agreement between Central America and the European Union entered into force in August 2013. In May 2014 the Political Dialogue and Cooperation Agreement between the European Union and Central America, an agreement strengthening ties between the two regions and providing for discussion on issues of common interest, also came into effect.

The project to set up employment and economic development areas (known as "ZEDE") establishes free-trade areas designed to attract foreign investment. These areas benefit from their own

legal personality and a specific regulatory framework. The Organic Act on the Employment and Economic Development Areas entered into force in September 2013. In 2014 the government will conduct a study in preparation for developing the first area.

Honduras does not currently have an International Monetary Fund financing programme (the most recent one having expired in March 2012).

### **3. The main variables**

#### **(a) The external sector**

In 2013 exports and imports contracted, by 5.3% and 3.1% respectively. Overall goods exports were hit by falling coffee exports, as a result of coffee-leaf rust and the reduction in the international price of coffee. Exports of farmed shrimp, meanwhile, grew considerably. As for exports of goods for further processing, the sectors of yarns and threads, textiles of synthetic fibres and knitted or crocheted fabrics, excluding garments and furs, were all down. The drop in textile exports was linked to falling demand from the United States. Exports of machinery and electrical appliances and parts and accessories thereof grew significantly. The United States was the largest importer of general goods from Honduras, followed by Latin America and Europe. Exports to Europe fell precipitously (by 38.4%) as a result of the fall in coffee exports. Fuels and lubricants continued to account for a significant proportion of imports.

Honduras's current account balance has run a growing deficit in recent years. In 2013 it stood at 8.9% of GDP (up from 8.6% in 2012), affected by the worsening trade balance. The central bank forecasts a deficit of 7.8% of GDP in 2014. The year 2013 was marked by the aforementioned fall in the value of coffee exports. The price of coffee surged in the first few months of 2014, but in May the International Coffee Organization composite indicator price began to fall once more.

At the end of 2013, family remittances amounted to US\$ 3.121 billion, up 7.9% on 2012, showing that remittance flows bounced back in 2013 from growth of just 3.4% in 2012. Remittances to 29 May 2014 stood at US\$ 1.351 billion, an increase of 8.4% on figures from the same period of 2012.

Honduras received US\$ 1.06 billion in foreign direct investment in 2013, practically unchanged on 2012. More impressive figures are expected for 2014, since 2013 suffered from the uncertainty associated with being an election year.

Swelled by the two sovereign bond issues in 2013, reserves stood at US\$ 3.056 billion at the end of 2013, reflecting growth of 18.9% on 2012 and sufficient to cover three months' worth of imports. Reserves as of 29 May 2014 were US\$ 3.177 billion.

#### **(b) Economic activity**

Economic growth in 2013 was 2.6%, less than in the previous year (3.9%) and the lowest rate seen since 2009. Developments affecting overall supply and demand included a reduction of 3.9% in gross fixed capital formation in the private sector, with the construction sector particularly badly hit, and slower growth in goods and services exports (0.2%) as a result of the sluggish performance of the country's main trading partners. The sectors exhibiting the most dynamic growth were financial intermediation (up 5.6%) and communications (up 5.8%), whereas the construction sector contracted (by 2.8%).

The central bank's projections are for economic growth of between 2.5% and 3.5% in 2014. Although coffee exports are expected to bounce back, in terms of both volume and price, in 2014, the bulk of the recovery is not expected to be seen until 2015. Greater confidence after the election year may well boost private investment. Other notable events included the start of a 4G-band mobile Internet service, after a call for tender in 2013, and the introduction of number portability, both of which are expected to boost the telecommunications industry. In March 2014 the monthly index of economic activity (IMAE) of the trend-cycle series showed year-on-year variation of 2.3%, down 0.7 percentage points on March 2013 figures. The sectors that contributed most to the growth of IMAE (original series) to March 2014 were "other services" and financial intermediation, insurance and pension funds.

### **(c) Prices, wages and employment**

Year-on-year inflation in December 2013 was 4.9%, within the range forecast by the central bank and down from 2012 figures (5.4%). The sectors that contributed most to inflation were food and non-alcoholic beverages, housing, water, electricity, gas and other fuels. The target range for inflation in 2014 in the central bank's monetary programme is between 5.5% and 7.5%.

In May 2014 year-on-year inflation stood at 6.2%, 1.4 percentage points higher than in May 2013. The sectors that influenced inflation the most were food and alcoholic beverages, with the steepest price hike in red beans, a fact that has been put down to hoarding.

According to the permanent multipurpose household survey of May 2013, the employment situation has deteriorated slightly. The urban open unemployment rate stood at 6.0% (as against 5.6% in May 2012). The urban participation rate, meanwhile, increased from 51.2% to 54.3%. The real wage index was up 0.9% on 2012. A tripartite agreement on minimum wages for the period between 2014 and 2016 came into effect in January 2014, raising minimum wages by between 5.0% and 8.0% per year, depending on the size of companies, as defined by the number of employees.

The new government has launched a labour programme entitled "Con Chamba Vivis Mejor" (life's better with a job) which aims to create 100,000 jobs during its term in office, for young people in particular. In March 2014 the Per-Hour Employment Act entered into force, which permits the contracting of workers by the hour and by fractions of days.

Table 1  
HONDURAS: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	6.1	6.6	6.2	4.2	-2.4	3.7	3.8	3.9	2.6
Per capita gross domestic product	4.0	4.5	4.1	2.2	-4.3	1.7	1.8	1.9	0.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.3	7.6	5.5	1.9	-1.9	1.8	6.5	9.9	4.2
Mining and quarrying	-0.6	-3.5	-13.0	-9.3	-0.9	-4.0	-10.6	7.4	-2.1
Manufacturing	7.0	4.5	5.0	3.4	-8.1	4.5	4.4	1.9	2.2
Electricity, gas and water	52.4	22.6	21.8	4.3	4.3	-0.2	3.6	3.9	1.0
Construction	-2.3	9.4	6.6	7.1	-13.3	-2.4	4.4	2.6	-2.8
Wholesale and retail commerce, restaurants and hotels	5.4	5.5	3.8	3.1	-10.5	3.4	4.2	3.6	2.2
Transport, storage and communications	16.6	11.6	12.7	12.3	8.8	7.4	6.6	5.9	4.8
Financial institutions, insurance, real estate and business services	12.3	15.1	15.4	8.2	0.1	5.7	6.2	5.0	4.4
Community, social and personal services	12.3	15.1	15.4	8.2	0.1	5.7	6.2	5.0	4.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.8	7.9	7.1	3.2	1.2	2.8	2.8	2.7	3.3
Government consumption	10.1	3.9	12.8	4.3	6.9	-1.0	-1.0	1.3	4.1
Private consumption	6.1	8.7	6.1	3.0	0.1	3.6	3.6	3.0	3.1
Gross capital formation	-1.2	7.2	24.7	8.9	-44.2	12.0	24.1	3.4	-9.2
Exports (goods and services)	5.3	1.6	2.5	0.9	-15.9	15.7	8.4	5.8	0.2
Imports (goods and services)	3.6	4.1	10.9	2.4	-26.2	15.2	12.7	3.8	-2.5
Investment and saving c/	<b>Porcentajes of GDP</b>								
Gross capital formation	27.6	28.3	33.7	36.1	20.6	21.9	26.0	25.9	24.8
National saving	24.6	24.6	24.6	20.7	16.8	17.6	18.1	17.3	16.2
External saving	3.0	3.7	9.0	15.3	3.8	4.3	7.9	8.5	8.6
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-290	-404	-1,116	-2,128	-557	-682	-1,408	-1,587	-1,655
Goods balance	-1,497	-2,027	-3,104	-4,255	-2,545	-2,643	-3,149	-3,100	-3,192
Exports, f.o.b.	5,048	5,277	5,784	6,199	4,827	6,264	7,977	8,274	7,833
Imports, f.o.b.	6,545	7,303	8,888	10,453	7,372	8,907	11,126	11,374	11,026
Services trade balance	-229	-291	-288	-326	-18	-193	-423	-446	-504
Income balance	-460	-537	-395	-521	-632	-728	-974	-1,275	-1,301
Net current transfers	1,895	2,450	2,671	2,973	2,638	2,882	3,138	3,235	3,343
Capital and financial balance d/	477	687	930	1,971	84	1,251	1,477	1,304	2,140
Net foreign direct investment	599	669	926	1,007	505	971	1,012	1,004	1,033
Other capital movements	-122	19	4	964	-422	280	464	300	1,107
Overall balance	187	283	-186	-157	-474	569	69	-283	485
Variation in reserve assets e/	-346	-282	109	78	354	-592	-86	283	-485
Other financing	159	-1	78	79	120	24	18	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	98.7	97.5	93.8	87.0	86.2	84.9	83.8	84.7
Terms of trade for goods (index: 2005=100)	100.0	95.4	93.6	87.9	94.0	96.6	104.7	91.4	85.6
Net resource transfer (millions of dollars)	177	149	612	1,530	-429	546	521	29	839
Total gross external debt (millions of dollars)	5,135	3,935	3,190	3,464	3,345	3,773	4,188	4,844	6,642
Employment	<b>Average annual rates</b>								
Labour force participation rate g/	50.9	50.7	50.7	51.0	53.1	53.6	51.9	50.8	53.7
Open unemployment rate h/	6.5	4.9	4.0	4.1	4.9	6.4	6.8	5.6	6.0
Visible underemployment rate h/	6.9	5.4	4.3	3.5	4.4	6.7	10.6	10.1	11.6

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	7.7	5.3	8.9	10.8	3.0	6.5	5.6	5.4	4.9
Variation in nominal exchange rate (annual average)	3.4	0.4	0.0	0.0	0.0	0.0	0.0	2.2	4.1
Variation in minimum urban wage	5.8	5.1	2.8	0.2	70.4	-4.5	-0.2	0.4	0.4
Nominal deposit rate i/	10.9	9.3	7.8	9.5	10.8	9.8	8.2	8.9	11.6
Nominal lending rate j/	18.8	17.4	16.6	17.9	19.4	18.9	18.6	18.4	20.1
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue	17.6	18.1	19.1	19.8	17.1	16.9	17.0	16.6	16.4
Tax revenue	14.5	15.2	16.4	16.1	14.2	14.4	14.8	14.7	14.5
Total expenditure	19.8	19.2	22.2	22.4	23.1	21.5	21.6	22.6	24.0
Current expenditure	15.3	16.0	18.1	17.5	18.6	17.9	16.9	17.9	19.1
Interest k/	1.1	1.0	0.7	0.6	0.7	1.0	1.3	1.7	2.2
Capital expenditure	4.5	3.3	4.1	4.8	5.1	3.7	4.6	4.6	5.1
Primary balance	-1.1	-0.1	-2.4	-1.9	-5.3	-3.7	-3.2	-4.3	-5.4
Overall balance	-2.2	-1.1	-3.1	-2.5	-6.0	-4.7	-4.6	-6.0	-7.6
Central government public debt	44.7	28.7	17.4	20.1	23.9	29.2	31.5	34.9	41.7
Domestic	3.8	3.3	2.8	4.9	8.3	12.5	14.4	15.1	15.1
External	40.9	25.4	14.6	15.2	15.5	16.6	17.1	19.1	26.7
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	21.2	26.5	33.4	33.1	35.6	33.3	35.2	38.1	37.9
To the public sector	-1.1	-2.7	-2.1	-1.1	1.5	2.1	4.1	4.0	2.1
To the private sector	39.4	45.1	52.8	52.6	51.7	48.7	48.0	51.8	55.2
Others	-17.2	-16.0	-17.3	-18.4	-17.6	-17.4	-16.9	-17.8	-19.4
Monetary base	8.9	9.6	11.3	11.5	10.3	10.7	10.2	10.0	10.5
Money (M1)	11.6	12.7	13.0	11.8	11.8	12.5	12.3	10.6	10.6
M2	37.4	41.3	42.8	39.0	37.1	38.7	39.0	37.7	39.1
Foreign-currency deposits	13.5	13.8	14.0	14.0	13.7	12.6	12.5	13.3	13.9

**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**

	2012				2013				2014	
	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)	3,048	2,932	2,612	2,506	2,741	2,959	2,722	2,703	3,057	3,243 b/
Real effective exchange rate (index: 2005=100) c/	85.5	85.9	84.6	83.6	83.9	82.5	83.4	84.8	84.7	82.3 b/
Consumer prices (12-month percentage variation)	5.6	5.2	4.6	5.5	5.7	4.9	5.3	4.8	5.8	6.1 b/
Average nominal exchange rate (lempiras per dollar)	19.05	19.06	19.40	19.77	19.86	19.73	20.39	20.44	19.69	19.63
Nominal interest rates (annualized percentages)										
Deposit rate d/	8.1	8.4	9.1	10.2	11.4	12.0	11.7	11.4	11.2	...
Lending rate f/	18.2	18.1	18.5	19.0	19.6	20.2	20.2	20.3	20.5	20.6 e/
Interbank rate	6.7	6.8	7.8	8.5	8.4	8.3	8.0	8.3	8.1	7.9
Monetary policy rates	5.8	6.7	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
International bond issues (millions of dollars)	-	-	-	-	500	-	-	500	-	- b/
Domestic credit (variation from same quarter of preceding year)	18.3	19.4	17.8	16.7	12.3	7.3	9.7	9.0	7.2	7.4 e/
Non-performing loans as a percentage of total credit	1.2	1.1	1.0	0.9	1.0	1.1	0.9	1.0	1.0	...

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

a/ Preliminary figures.

b/ Figures as of May.

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

d/ Weighted average rate of deposit rates.

e/ Figures as of April.

f/ Weighted average of lending rates.