

Honduras

The Honduran economy is expected to grow by 3.0% in 2014 (compared with 2.6% in 2013). A number of factors have influenced this estimate, most particularly the recovery of coffee production in the country and an improvement in external conditions. Conversely, a sharp fiscal adjustment over the course of the year weighed on growth. The central government deficit is forecast to be 5.2% of GDP at year-end, a sizeable improvement on the deficit of 7.9% of GDP posted in 2013. Inflation picked up slightly, but is projected to remain within the target range set by the Central Bank of Honduras (5.5% to 7.5%). A major economic landmark under the incoming administration of President Juan Orlando Hernández were the negotiations on a new agreement with the International Monetary Fund (IMF), culminating in December with the Fund's approval of a three-year stand-by arrangement worth a total of US\$ 188.6 million. By signing the agreement, Honduras also became eligible for budget support loans from the Inter-American Development Bank (IDB), the World Bank and the European Union worth US\$ 220 million in 2014. As regards the performance of the economy in 2015, it is expected to maintain a growth rate similar to that of 2014 at about 3.0%.

The deep fiscal adjustment from a deficit of 7.9% of GDP in 2013 to a projected deficit of 5.2% of GDP at year-end 2014 was chiefly achieved by implementing the fiscal reform approved in late 2013 (the Act to Strengthen Public Finances, Control Tax Exemptions and Combat Evasion), which was designed to achieve higher tax revenues and greater control over public expenditure. On the income side, measures included a rise in the sales tax rate from 12% to 15%. These changes led to a 19.4% year-on-year increase in total central government revenue in the period between January and August, with indirect tax revenues up 24.7% during that period. It is therefore estimated that the tax burden will rise from 15.1% of GDP in 2013 to 16.8% in 2014. On the spending side, total expenditure to August decreased by a modest 0.7% from the figure to August 2013, with a 7.0% year-on-year drop in capital expenditure being a major factor. Current expenditure edged up 0.6%, with higher debt interest payments (up 20.6%) making a significant contribution, partially offset by a 16.1% fall in spending on goods and services. There was a rise in transfers, most of which were disbursed to balance the financial accounts of State-owned enterprises, notably the National Electric Power Company (ENEE), whose losses (estimated at 32% of total sales in 2013) account for a large proportion of the overall public-sector deficit.

Despite the adjustment over the year, the central government deficit remains high and is worrisome insofar as it quickens the growth of the public debt and drives up debt servicing costs as a proportion of central government expenditure. In the third quarter of 2014, Honduras's total public debt stood at US\$ 7.892 billion, equivalent to 41% of GDP (of which 26 percentage points were external debt and 15 percentage points domestic debt). As of the third quarter of 2014, total expenditure on public debt servicing accounted for 29.7% of total central government revenue.

The central bank has kept the monetary policy rate unchanged at 7% since May 2012. During this period, open market operations (mainly bond issues) have been the main monetary policy instrument used by the central bank to absorb the excess liquidity arising in the system. As regards interest rates, in the third quarter of 2014 the nominal deposit rate and real lending and deposit rates dropped below the levels observed in the fourth quarter of 2013, while the nominal lending rate rose slightly. Total credit to the private sector was up 10.7% year on year in September in nominal terms, a slightly slower rate of increase than in 2013.

The central bank continued to use the exchange-rate band, which has a margin of $\pm 7\%$ relative to a base price, and carried on allocating foreign currency by auction. In October 2014, the lempira showed a 3.4% nominal depreciation against the dollar compared with the rate at year-end 2013.

Where trade policy is concerned, the free trade agreement signed between Honduras and Canada in late 2013 entered into force in September 2014, with the consequence that Honduran products now receive preferential access to all North American markets.

Both exports and imports of goods (f.o.b.) made modest gains (1.7% and 1.0%, respectively) in the first half of 2014 compared with the same period the year before. Among traditional exports, coffee lost 2.8% in value terms, and this small decline came despite a 1.4% price rise, owing to a 4.1% drop in volume caused by coffee-leaf rust, which adversely affected production in 2013 and continued to weigh on exports in the early months of 2014. The central bank forecasts that the balance-of-payments current account deficit will narrow from 9.6% of GDP in 2013 to 7.5% of GDP in 2014.

With regard to the financial account, Honduras received US\$ 542 million in foreign direct investment in the first half of 2014, a rise of 0.9% on the same period in 2013. International reserves amounted to US\$ 3.055 billion as of 13 November; this was almost the same as the figure at the end of 2013, and represented over three months of import cover. Family remittances showed year-on-year growth of 8.3% in September, down slightly on the 9.2% posted in the same period in 2013. Stronger remittance inflows largely reflected the improving labour market situation in the United States, the main destination for Honduran migrants.

ECLAC estimates that Honduras will grow by 3.0% in 2014. According to quarterly GDP data, the economy expanded by 3.1% in the first half of the year, compared with 2.3% in the first half of 2013. Construction and mining activity fell particularly heavily (by 9.7% and 9.5% respectively), although the strong performance of the agriculture, communications and financial intermediation sectors was enough to offset these contractions. On the demand side, total consumption rose by a modest 1.0% during the first half of the year, as private consumption expanded by 2.1% and public consumption dropped by 4.4%. Gross fixed investment rose by 3.9%. In 2015, ECLAC projects a growth rate similar to that of 2014, in the region of 3.0%.

In October, year-on-year inflation stood at 6.3%, having quickened since October 2013 (4.6%). Price rises are largely a temporary effect arising from the increase in the value added tax (VAT) rate from 12% to 15% as part of the fiscal reform approved in 2013. The category that most affected inflation was food and non-alcoholic beverages, whose contribution to the inflation rate in October stood at 2.4 percentage points. The inflation rate is expected to be 6.5% in December 2014.

Honduras: main economic indicators, 2012-2014

	2012	2013	2014 ^a
	Tasa de variación anual		
Producto interno bruto	4.1	2.6	3.0
Producto interno bruto por habitante	2.1	0.7	1.1
Precios al consumidor	5.4	4.9	6.3 ^b
Dinero (M1)	2.1	-5.0	6.9 ^c
Tipo de cambio real efectivo ^d	-2.1	0.7	-2.7 ^b
Relación de precios del intercambio	-12.7	-6.4	0.5
	Porcentaje promedio anual		
Tasa de desempleo urbano abierto	5.6	6.0	...
Resultado global del gobierno central / PIB	-6.0	-7.9	-5.2
Tasa de interés pasiva nominal	8.9	11.6	10.9 ^b
Tasa de interés activa nominal ^e	18.4	20.1	20.6 ^b
	Millones de dólares		
Exportaciones de bienes y servicios	9,415	8,838	9,136
Importaciones de bienes y servicios	13,018	12,645	12,953
Balanza de cuenta corriente	-1,581	-1,764	-1,475
Balanzas de capital y financiera ^f	1,290	2,243	1,723
Balanza global	-291	479	248

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

a/ Estimaciones.

b/ Datos al mes de octubre.

c/ Datos al mes de septiembre.

d/ Una tasa negativa significa una apreciación real.

e/ Promedio ponderado de algunas tasas activas.

f/ Incluye errores y omisiones.