

## HONDURAS

### 1. General trends

Economic activity picked up somewhat in Honduras in 2014, with growth of 3.1% compared with 2.8% in 2013. A number of factors had a hand in this performance, including an upturn in external conditions and an improvement in coffee production. At the same time, growth was held down by heavy fiscal adjustment throughout the year. In supply and demand terms, the faster growth rate reflected expansion of gross domestic investment (6.8%), private consumption (2.7%) and exports of goods and services (1.6%), while public consumption contracted by 1.1%, consistently with the fiscal entrenchment pursued by the government. The fastest-growing sectors were financial intermediation (8.3%) and communications (5.2%).

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, set the tone for economic policy in 2014. In March 2015 the Fund conducted the first review under the arrangement and concluded that all the quantitative targets set for 2014 had been met and satisfactory progress had been made towards the structural parameters established for 2015.

For 2015, ECLAC forecasts growth of around 3.0%, on the back of favourable external conditions (particularly the upturn in the United States economy), continued upswing in the coffee sector, falling oil prices and increased investor confidence thanks to the agreement signed with IMF. These factors will continue to offset the impacts of the fiscal consolidation. In March the monthly index of economic activity showed a stronger year-on-year variation than in the same month of 2014 (3.7% compared with 3.1%).

Inflation to December 2014 was 5.8%, within the target range —of 5.5% to 7.5%— set by the Central Bank of Honduras and well below initial projections under the monetary programme. This performance was attributable chiefly to the drop in the oil price late in the year, which offset the temporary impact of the entry into effect of the VAT hike, from 12% to 15%, at the start of 2014. The Central Bank also expects the consumer price index to December 2015 to be within its target range of 4.5% to 6.5%. In April 2015, year-on-year inflation stood at 3.6%.

The central government deficit closed 2014 at 4.4% of GDP, much lower than the 7.9% deficit posted in 2013 and a better result than the target of 5.2% set for the year. The sharp fall was due in particular to the application of the fiscal reform adopted at the end of 2013. For 2015, the Ministry of Finance calculates a central government deficit of 16.850 billion lempiras (3.8% of GDP), a lower figure than the 2014 deficit of 18.000 billion lempiras (4.4% of PIB).

High levels of public debt in recent years have exerted pressure on public finances. In the fourth quarter of 2014 central government debt stood at the equivalent of 45% of GDP (of which 28.5 percentage points corresponded to external debt and 16.5 to domestic debt).

At the end of 2014 the current account deficit was down to 7.4% of GDP (from 9.5% in 2013), thanks to more favourable terms of trade, a sharp rise in remittances and the impact of the fiscal consolidation, which slowed growth in goods imports. By February 2015, both exports and imports of general merchandise were showing steep rises in year-on-year terms.

## **2. Economic policy**

### **(a) Fiscal policy**

Under the IMF agreement, the Government of Honduras committed to reducing the country's fiscal deficit from the 2013 figure of 7.9% of GDP to 2.0% by 2017. The central government's tight fiscal stance adopted in 2014 in line with this target brought the deficit sharply down to 4.4% of GDP, outperforming the target of 5.2% set for the year.

The deep adjustment in the public accounts was achieved chiefly 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. One of the measures under the reform was an increase in sales tax from 12% to 15%.

At year-end 2014 central government total income was up by 19.7%, with a jump of 26.5% in indirect tax revenues. Total expenditure edged up by 1.0%. By contrast with previous periods of fiscal adjustment, spending containment affected mainly current spending, which contracted by 1.5%, while capital spending rose 10.3%.

Much of current spending goes in debt servicing and transfers to balance the financial accounts of State-owned enterprises, notably the National Electric Power Company (ENEE), whose losses were equivalent to 1.3% of GDP in 2014. Although ENEE losses were smaller than in 2013 (1.8% of GDP), they still accounted for a large proportion of the overall deficit on the public accounts in 2014.

Under the terms of the agreement with IMF, fiscal adjustment is expected to continue in 2015, bringing the public deficit down to 3.8% from the 4.4% registered in 2014, chiefly on the back of stronger tax revenues (which are projected to grow 9.5%) and a drop in capital transfers, estimated at 28.5%. In addition, 2015 is expected to bring an improvement in the financial situations of ENEE and Hondutel, the Honduran telecommunications company. At the end of the first quarter of 2015, ENEE reported a 56% reduction in losses with respect to the prior-year period. The central government closed the first quarter of 2015 with a fiscal deficit of 0.5% of GDP, smaller than the 0.9% posted in first-quarter 2014, owing to a strong rise in current income and a minimal increase in current spending in the early months of the year.

With regard to public debt, figures from the Ministry of Finance show central government public debt standing at 45% of GDP in the fourth quarter of 2014, of which 28.5 percentage points corresponded to external debt and 16.5 to domestic debt. Despite the country's heavy debt burden, the progress made over the past year on reducing the public deficit was reflected in Moody's upgrading of Honduras' credit rating in May 2015.

### **(b) Monetary policy**

After holding the monetary policy rate at 7.0% since May 2012, the board of the Central Bank of Honduras cut it twice in the first few months of 2015, by 0.25 percentage points on each occasion, reflecting the bank's accommodative monetary policy stance. The rate currently stands at 6.5%.

With regard to interest rates, in the fourth quarter of 2014 the nominal lending rate was above the level of a year earlier (by 0.49 percentage points). However, both the nominal deposit rate and the real lending and deposit rates were below the prior-year figures (by 0.41, 1.09 and 1.77 percentage points, respectively).

Total lending to the private sector showed nominal year-on-year growth of 10.7% in 2014 (compared to 11.2% in 2013). Foreign-currency lending expanded considerably more than national-currency lending (13.8% compared with 9.5%), reflecting borrowers' preference for foreign-currency loans owing to their lower rates. For 2015, the central bank projects growth of 11.3% in lending to the private sector.

### **(c) Exchange-rate policy**

The central bank maintained the exchange-rate band of +/-7% around a base rate. In December 2014, the lempira showed a nominal depreciation of 4.4% against the dollar, compared with the value at the end of 2013. The lempira is expected to lose between 4% and 5% against the dollar in 2015, similarly to its depreciation in 2014, and did in fact continue to depreciate in the first few months of the year.

The real effective exchange rate calculated by ECLAC, which is expressed as an index, dropped from 84.6 in mid-2014 to 81.9 in January 2015, representing a real appreciation of the lempira and showing that the nominal depreciation has not fully offset the rise in domestic prices.

### **(d) Other policies**

The General Electricity Industry Act was adopted in 2014 to address the precarious financial situation of ENEE, the power company. The new legislation reduces the State's share in ENEE to a minimum and converts the company into a corporation managed by three separate trusts. The Act also establishes parameters for electricity trading and investment in the sector, and provides that ENEE must employ public tender processes, rather than contracting directly. Lastly, the electricity regulator will now adjust rates every three months to reflect real costs. In July 2015 rates will thus rise by 2.5%.

Along with El Salvador and Guatemala, Honduras signed up to the Plan of the Alliance for Prosperity in the Northern Triangle in September 2014. The Plan will bring financial support (of around US\$ 1 billion) from the Government of the United States to reduce poverty and boost economic development in the three countries, with a view to reducing mass emigration to the United States. The four pillars for implementation of the Plan are: stimulation of the production sectors, development of human capital and systems of social protection and inclusion, public safety and access to justice, and strengthening of State institutions.

In February 2015, Honduras and Guatemala signed an agreement to form a customs union, which will create a bilateral free trade area. The implementation plan under the agreement is expected to be adopted in mid-2015, and to come into operation as of 1 December 2015.

### 3. The main variables

#### (a) The external sector

Exports were up by 3.4% and imports by 1.1% in 2014. Coffee was a particularly strong export performer, rebounding by 11.8% on the back of a rise in international prices in 2014 combined with recovery from the impact of coffee rust disease on 2013 production. Exports of palm oil and shrimp were also up, by a robust 8.1% apiece. Exports of goods for processing climbed 2.3% in 2014 after two years of contraction, on the strength of economic upturn in the United States, which is still the main destination for Honduran exports, followed by the rest of Latin America and Europe.

Imports edged up in 2014, reflecting a sharp expansion in capital goods imports (13.7%), a slight increase in the consumer goods category (1.1%) and a steep fall in imports of petroleum and fuels (-9.1%), owing to the drop in international oil prices in the final months of 2014.

After widening for several years in a row, culminating in a gap of 9.5% of GDP in 2013, the current account deficit narrowed to 7.4% of GDP in 2014, on the strength of improvements in the trade balance, owing to faster growth in exports than imports, and in the transfers balance, thanks to a sharp rise in remittances. Family remittances ended 2014 at US\$ 3.353 billion, representing 17.2% of GDP and a rise of 8.8% over 2013, and in the first quarter of 2015 they reached US\$ 809.2 million, 17.0% more than the prior-year figure.

Foreign direct investment (FDI) flows into Honduras came to US\$ 1.144 billion in 2014, representing growth of 8.0% with respect to 2013. For 2015, FDI inflows are expected to be similar to those of 2014, with the main components being reinvested earnings and inter-company loans.

Reserves stood at US\$ 3.517 billion at the end of 2014, US\$ 460.6 million up on the 2013 figure and equivalent to 4.3 months of import cover. By 30 April 2015, reserves had climbed to US\$ 3.649 billion.

The current account deficit is projected to narrow to 6.5% of GDP in 2015, on the basis of a lower oil price, increased coffee exports, a steady rise in remittance inflows and the impact of fiscal consolidation (which will contain import growth). In March 2015, goods exports in general were up by 12.0%, year on year, and imports by 11.1%.

#### (b) Economic activity

Economic growth rose above the previous year's rate (2.8%) to 3.1% in 2014. In supply and demand terms, the faster growth rate reflected a 6.8% rise in gross domestic investment, while private consumption rose 2.7% and public consumption shrank by 1.1%, reflecting the fiscal adjustment. The fastest-growing sectors were financial intermediation (8.3%) and communications (5.2%).

ECLAC expects 2015 growth to be similar to the 2014 rate, at around 3.0%, on the basis of favourable external conditions (chiefly the upturn in the United States economy), lower oil prices, a sound performance from the coffee sector and stronger investor confidence thanks to the agreement signed with IMF. These factors will continue to offset the impacts of the fiscal adjustment which will remain in place throughout the year. In March the monthly index of economic activity showed a stronger year-on-year

variation than in the same month of 2014 (3.7% compared with 3.1%), with the financial intermediation and manufacturing sectors contributing the most to this performance.

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

Year-on-year inflation in December 2014 was 5.8%, within the target range (of between 5.5% and 7.5%) established by the central bank. The result was in large part thanks to the fall in fuel prices towards the end of the year, which offset the temporary effect of the VAT rise from 12% to 15% as part of the fiscal reform package adopted at the end of 2013. The items contributing most to inflation were food and non-alcoholic beverages, housing, water, electricity, gas and other fuels.

The central bank's monetary programme set a target range of between 4.5% and 6.5% for inflation in 2015. In April, year-on-year inflation stood below the floor of the target band, at 3.6%, mainly as a result of the downtrend in prices for fuels and some raw materials so far this year.

The Permanent Multi-purpose Household Survey showed a deterioration in the employment situation in May 2014, with open unemployment at 7.5% (compared with 6.0% in May 2013), and the urban participation rate up from 54.3% to 55.7%.

Table 1  
**HONDURAS: MAIN ECONOMIC INDICATORS**

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	6.6	6.2	4.2	-2.4	3.7	3.8	4.1	2.8	3.1
Per capita gross domestic product	4.5	4.1	2.2	-4.3	1.7	1.8	2.1	0.8	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.6	5.5	1.9	-1.9	1.8	6.5	10.7	3.4	2.7
Mining and quarrying	-3.5	-13.0	-9.3	-0.9	-4.0	-10.6	-3.2	-6.8	-5.1
Manufacturing	4.5	5.0	3.4	-8.1	4.5	4.4	1.8	3.4	1.5
Electricity, gas and water	22.6	21.8	4.3	4.3	-0.2	3.6	2.9	-2.5	1.3
Construction	9.4	6.6	7.1	-13.3	-2.4	4.4	2.4	-2.5	-8.2
Wholesale and retail commerce, restaurants and hotels	5.5	3.8	3.1	-10.5	3.4	4.2	3.8	2.1	2.0
Transport, storage and communications	11.6	12.7	12.3	8.8	7.4	6.6	5.9	4.7	4.3
Financial institutions, insurance, real estate and business services	15.1	15.4	8.2	0.1	5.7	6.2	5.1	4.1	6.2
Community, social and personal services	15.1	15.4	8.2	0.1	5.7	6.2	5.1	4.1	6.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.9	7.1	3.2	1.2	2.8	2.8	4.0	3.7	2.1
Government consumption	3.9	12.8	4.3	6.9	-1.0	-1.0	2.3	3.2	-1.1
Private consumption	8.7	6.1	3.0	0.1	3.6	3.6	4.3	3.8	2.7
Gross capital formation	7.2	24.7	8.9	-44.2	12.0	24.1	-2.7	-11.4	6.8
Exports (goods and services)	1.6	2.5	0.9	-15.9	15.7	8.4	9.8	-1.3	1.6
Imports (goods and services)	4.1	10.9	2.4	-26.2	15.2	12.7	6.3	-4.1	1.5
Investment and saving c/	<b>Porcentajes of GDP</b>								
Gross capital formation	28.3	33.7	36.1	20.6	21.9	26.0	24.6	21.8	22.1
National saving	24.6	24.6	20.7	16.8	17.6	18.1	16.0	12.2	14.7
External saving	3.7	9.0	15.3	3.8	4.3	7.9	8.5	9.5	7.4
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-404	-1,116	-2,128	-557	-682	-1,409	-1,581	-1,763	-1,444
Goods balance	-2,027	-3,104	-4,255	-2,545	-2,643	-3,149	-3,012	-3,147	-2,998
Exports, f.o.b.	5,277	5,784	6,199	4,827	6,264	7,977	8,359	7,805	8,072
Imports, f.o.b.	7,303	8,888	10,453	7,372	8,907	11,126	11,371	10,953	11,070
Services trade balance	-291	-288	-326	-18	-193	-423	-591	-668	-698
Income balance	-537	-395	-521	-632	-727	-974	-1,266	-1,353	-1,322
Net current transfers	2,450	2,671	2,973	2,638	2,882	3,138	3,288	3,405	3,572
Capital and financial balance d/	687	930	1,971	83	1,248	1,489	1,290	2,235	1,904
Net foreign direct investment	669	926	1,007	505	971	1,012	851	992	1,120
Other capital movements	19	4	964	-422	278	476	439	1,244	784
Overall balance	283	-186	-157	-474	567	80	-291	473	459
Variation in reserve assets e/	-282	109	78	354	-592	-86	283	-485	-459
Other financing	-1	78	79	120	25	6	8	12	-1
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	98.7	97.5	94.2	87.1	86.1	85.4	83.8	84.8	82.4
Terms of trade for goods (index: 2010=100)	98.8	97.0	91.1	97.3	100.0	108.4	94.6	88.6	90.4
Net resource transfer (millions of dollars)	149	612	1,530	-429	546	521	32	894	582
Total gross external debt (millions of dollars)	3,935	3,190	3,499	3,365	3,785	4,208	4,861	6,709	7,180
Employment	<b>Average annual rates</b>								
Labour force participation rate g/	50.7	50.7	51.0	53.1	53.6	51.9	50.8	53.7	56.0
Open unemployment rate h/	4.9	4.0	4.1	4.9	6.4	6.8	5.6	6.0	7.5
Visible underemployment rate h/	5.4	4.3	3.5	4.4	6.7	10.6	10.1	11.6	10.4

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	5.3	8.9	10.8	3.0	6.5	5.6	5.4	4.9	5.8
Variation in nominal exchange rate (annual average)	0.4	0.0	0.0	0.0	0.0	0.0	2.2	4.1	2.0
Variation in minimum real wage	5.1	2.8	0.2	70.4	-4.5	-0.2	0.4	0.4	-1.1
Nominal deposit rate i/	9.3	7.8	9.5	10.8	9.8	8.2	8.9	11.6	10.8
Nominal lending rate j/	17.4	16.6	17.9	19.4	18.9	18.6	18.4	20.1	20.6
<b>Central government</b>	<b>Porcentajes de GDP</b>								
Total revenue	18.1	19.1	19.8	17.1	16.9	17.0	16.7	17.0	18.7
Tax revenue	15.2	16.4	16.1	14.2	14.4	14.8	14.7	15.1	16.7
Total expenditure	19.2	22.2	22.4	23.1	21.5	21.6	22.7	24.9	23.1
Current expenditure	16.0	18.1	17.5	18.6	17.9	16.9	17.9	19.8	17.9
Interest k/	1.0	0.7	0.6	0.7	1.0	1.3	1.7	2.1	2.3
Capital expenditure	3.3	4.1	4.8	5.1	3.7	4.6	4.6	5.2	5.2
Primary balance	-0.1	-2.4	-1.9	-5.3	-3.7	-3.2	-4.3	-5.8	-2.1
Overall balance	-1.1	-3.1	-2.5	-6.0	-4.7	-4.6	-6.0	-7.9	-4.4
Central government public debt	28.7	17.4	20.1	23.9	29.2	31.5	35.0	42.7	45.0
Domestic	3.3	2.8	4.9	8.3	12.5	14.4	15.1	15.3	16.5
External	25.4	14.6	15.2	15.5	16.6	17.1	19.1	27.4	28.5
<b>Money and credit</b>	<b>Porcentajes de GDP, end-of-year stocks</b>								
Domestic credit	26.5	33.4	33.1	35.6	33.3	35.2	38.1	38.0	38.5
To the public sector	-2.7	-2.1	-1.1	1.5	2.1	4.1	4.1	2.1	2.5
To the private sector	45.1	52.8	52.6	51.7	48.7	48.0	51.9	55.4	56.4
Others	-16.0	-17.3	-18.4	-17.6	-17.4	-16.9	-17.9	-19.5	-20.3
Monetary base	9.6	11.3	11.5	10.3	10.7	10.2	10.0	10.5	11.1
Money (M1)	12.7	13.0	11.8	11.8	12.5	12.3	10.6	10.7	11.1
M2	41.3	42.8	39.0	37.1	38.7	39.0	37.8	39.2	39.8
Foreign-currency deposits	13.8	14.0	14.0	13.7	12.6	12.5	13.3	13.9	15.4

**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**

	2013				2014				2015	
	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)	2,741	2,959	2,722	2,703	3,057	3,239	3,166	3,255	3,542	3,701 b/
Real effective exchange rate (index: 2005=100) c/	84.9	83.5	85.3	85.4	80.5	81.6	84.5	83.1	82.3	82.9 d/
Consumer prices (12-month percentage variation)	5.7	4.9	5.3	4.8	5.8	6.1	6.4	6.2	3.7	3.5 d/
Average nominal exchange rate (lempiras per dollar)	19.9	19.7	20.4	20.4	19.7	20.0	21.1	21.2	21.7	21.9
Nominal interest rates (average annualized percentages)										
Deposit rate e/	11.4	12.0	11.7	11.4	11.2	11.0	10.6	10.5	10.3	...
Lending rate g/	19.6	20.2	20.2	20.3	20.5	20.6	20.6	20.7	20.8	20.7 f/
Interbank rate	8.4	8.3	8.0	8.3	8.1	8.0	7.5	7.6	6.6	5.8 e/
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.8	6.5 c/
International bond issues (millions of dollars)	500	-	-	500	-	-	-	-	-	-
Domestic credit (variation from same quarter of preceding year)	12.3	7.3	9.7	9.0	7.2	8.2	6.2	5.5	9.1	8.8 e/
Non-performing loans as a percentage of total credit	1.0	1.1	0.9	1.0	1.1	1.2	1.1	1.1	1.2 h/	...

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

a/ Preliminary figures.

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

c/ Figures as of May.

d/ Weighted average rate of deposit rates.

e/ Figures as of April.

f/ Weighted average of lending rates.

g/ Figures as of February.