

Honduras

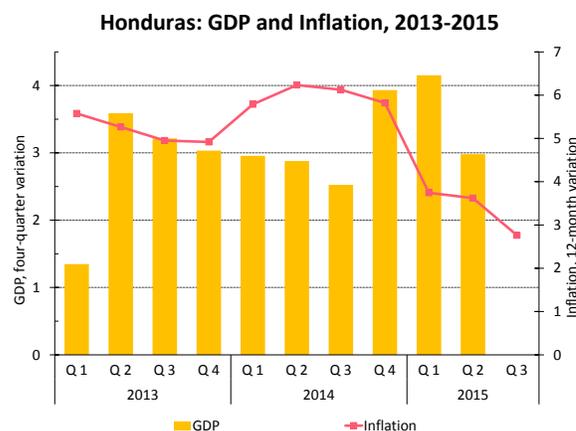
ECLAC estimates the growth of the Honduran economy in 2015 at 3.4% (compared to 3.1% in 2014) — supported by the impact on exports and remittances of a strengthening United States economy; the robust performance of the coffee sector; the sharp fall in international oil prices, which has decreased the import bill as well as reducing the losses recorded by the National Electric Power Company (ENEE) and making available additional resources for consumption and investment. The central government deficit is expected to be 3.8% of GDP at year-end (a substantial drop from the previous year's 4.4%), reflecting the fiscal consolidation process to which the government has committed under the arrangement signed with the International Monetary Fund (IMF) in December 2014. The reduction in the oil import bill and the sharp increase in remittances will help narrow the current account deficit from 7.5% of GDP in 2014 to 6.5% in 2015. Inflation should be around 3.0% —below the floor of the central bank's target range of 3.75%–5.75%.

Government efforts to impose tighter control on public expenditure and bolster revenues produced a cumulative fiscal deficit equivalent to 1.5% of GDP over the first eight months of the year (compared to 3.8% in the year-earlier period). Total income grew by 12.4% in real terms year-on-year during this period, with a 13.4% increase in tax revenue owing mainly to the addition of 37,000 new taxpayers to the tax base. As a result, by August, central government tax revenue represented 10.6% of GDP (compared to 9.6% in the prior-year period).

Total expenditure to August was up by 6.1% in real terms year-on-year, with current expenditure growing by a moderate 3.3%. The latter was the net result of a 0.8% drop in payroll expenses (the most heavily weighted item in current expenditure) and a 2.6% reduction in transfers, while expenditure on goods and services increased by 27.2% and interest payments by 9.6%. Capital expenditure rose by a hefty 20.9% (mainly for road infrastructure, construction, communications and energy projects), reflecting the authorities' efforts to concentrate the fiscal adjustment process on current expenditure.

Progress made in reining in the public deficit was reflected in improved sovereign risk ratings. In May, Moody's upgraded the country's outlook from stable to positive, and in July Standard and Poor's raised its rating from B to B+. At the end of the second quarter, central government debt was equivalent to 44.9% of GDP (28.1% external debt and 16.8% domestic), below the 45.6% of GDP recorded at the end of 2014.

After keeping the monetary policy interest rate unchanged since May 2012, the central bank made three cuts totalling 75 basis points in 2015, bringing the rate to 6.25%. Nonetheless, transmission of monetary policy to the broader financial system has proven weak. In the third quarter of 2015, the weighted average nominal lending rate was slightly up on its fourth-quarter 2014 levels, at 20.79% per year; and the lending rate rose in real terms by 3.53 percentage points to 17.25%. The nominal rate on deposits dropped by 0.62 percentage points, to 6.49%, and the real rate rose by 2.50 points, to 3.37%. Total lending to the private sector was up by 10.1% year-on-year in



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

August, slightly less than the increase recorded in 2014.

As of October 2015, the lempira had depreciated by 2.6% in nominal terms against the dollar compared to its end-2014 value, a similar rate of depreciation to that recorded the previous year and consistent with the central bank's targets. The real exchange rate against the dollar depreciated by 1.5%.

Merchandise exports and imports (FOB) posted year-on-year increases of 4.7% and 5.1%, respectively, in the first half of 2015. Coffee exports were up by a notable 36.3% in value, whereas maquila exports were 4.3% higher. The drop in fuel imports (-32.3%) was partly offset by a 7.6% increase in the consumer goods category—reflecting the buoyancy of domestic demand—and by a 14.0% rise in imports of capital goods—owing mainly to machinery imports by solar energy firms. In the first 10 months of the year, family remittances grew by 8.6% year-on-year, largely thanks to the improved job market situation in the United States, the main destination for Honduran migrants.

On the financial account, foreign direct investment (FDI) flows amounted to US\$ 560.8 million in the first half of the year, 3.5% above their year-earlier level. The bulk of these flows are reinvestment of profits, mainly in the communications sector. International reserves stood at US\$ 3.592 billion on 29 October, slightly higher than at end-2014 and representing nearly four months' import cover.

The quarterly GDP figures displayed year-on-year growth of 3.6% in the first half of the year, compared to the 2.9% recorded in first-half 2014. The best-performing sectors include financial intermediation and communications (growth of 9.4% and 4.8%, respectively). On the demand side, total consumption expanded by 2.3% in the first half of the year, owing to a 2.8% increase in private consumption, while public consumption declined by 0.8%. Gross fixed capital formation grew vigorously by 35.5%, fuelled by investments in machinery and equipment by five solar energy firms that started up operations in Honduras during the year. In August 2015, the monthly economic activity index (IMAE) reported a year-on-year variation of 3.6%.

In October, the year-on-year inflation rate was 2.54%, below the floor of the central bank's target range for 2015, and owing mainly to the fall in the oil price, which generated a 3.96% reduction in the transport prices index. The category exerting the strongest upward pressure on prices was food and non-alcoholic beverages (2.48%), owing to a drought that hurt food production in some parts of the country.

The national employment rate rose from 53.1% to 54.0%; but an even greater increase in labour market participation pushed the jobless rate up by two percentage points to 7.3%.

As the factors that drove economic expansion in 2015 are expected to persist, ECLAC projects real GDP growth close to 3.3% in 2016. Inflation is set to remain within the central bank's target range, which for 2016 is 5.5% with a margin of 1 percentage point on either side. The balance-of-payments

**Honduras: main economic indicators,
2013-2015**

	2013	2014	2015 ^a
	Annual growth rate		
Gross domestic product	2.8	3.1	3.4
Per capita gross domestic product	1.3	1.6	2.0
Consumer prices	4.9	5.8	2.5 ^b
Money (M1)	-5.0	8.4	19.0 ^c
Real effective exchange rate ^d	0.8	-2.8	-0.3 ^b
Terms of trade	-6.4	2.0	2.7
	Annual average percentage		
Open urban unemployment rate	6.0	7.5	8.8
Central government			
Overall balance / GDP	-7.9	-4.4	-3.9
Nominal deposit rate ^g	7.6	7.3	6.7 ^c
Nominal lending rate ^f	20.1	20.6	20.8 ^c
	Millions of dollars		
Exports of goods and services	8,818	9,159	9,571
Imports of goods and services	12,633	12,854	13,468
Current account balance	-1,763	-1,444	-1,351
Capital and financial balance ^e	2,235	1,904	1,580
Overall balance	473	459	229

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

a Estimates.

b Figures as of October.

c Figures as of September.

d A negative rate indicates an appreciation of the currency in real terms.

e Refers to the extraregional real effective exchange rate.

f Weighted average of deposit rates.

g Weighted average of some lending rates.

Includes errors and omissions.

current account deficit is expected to be broadly unchanged around 6.4% of GDP. In keeping with the targets set under the arrangement with IMF, the fiscal deficit will be on the order of 3.3% of GDP.