

## HONDURAS

### 1. General trends

The economy grew by 3.6% in 2016, maintaining the pace recorded in 2015 thanks to private and public consumption (up 3.8% and 5.9%, respectively). The central government's fiscal deficit came to 2.8% of GDP, in line with the International Monetary Fund (IMF) fiscal adjustment programme and with the Fiscal Responsibility Act. The current account deficit amounted to 3.8% at the end of 2016, down 1.7 percentage points versus the year-earlier period, owing to weaker imports and stronger remittances. Consumer prices were up 3.3% year-on-year at the end of 2016 (up 2.4% in 2015), slightly below the central bank's targeted rate (4.5%, with a tolerance range of one percentage point), owing to higher education and transport prices. The national open unemployment rate stood at 7.4% in 2016, which was a touch higher than the level seen in 2015 (7.3%).

Honduras 20/20, the national economic development programme, was launched in 2016. This multi-year plan aims to create 600,000 jobs by investing some US\$ 13 billion in four key economic sectors: tourism, textiles, intermediate manufacturing and business support services. The Fiscal Responsibility Act (Decree No. 25-2016) aims to strengthen public finances and caps the non-financial public sector (NFPS) deficit at 1.6% of GDP, with the end goal to reduce this figure gradually to 1% of GDP in 2019. Under this Act: (i) the nominal increase in current spending must not exceed average GDP growth over the previous 10 years plus the projected inflation for the following year, (ii) limits are established for public sector floating debt, and (iii) tax exemption rules must be clear-cut.

ECLAC estimates a slightly stronger pace of growth for the Honduran economy in 2017 than in 2016, at 3.7%, owing to: (i) a stronger economy in the United States, the country's main trading partner, (ii) an increase in public investment thanks to continued support for infrastructure projects, (iii) higher international coffee prices, and (iv) healthy private consumption owing to remittances. The construction, financial intermediation, communications and agriculture sectors are expected to drive growth. The NFPS deficit is projected to continue declining to around 1.5% of GDP, in line with the IMF fiscal adjustment programme and the Fiscal Responsibility Act. The current account deficit is expected to swell to around 4.9% because of a higher fuel bill, and inflation is forecast to remain within the central bank's targeted range. Lastly, presidential elections will take place in November 2017.

### 2. Economic policy

Economic policy in 2016 was focused on achieving the government's macroeconomic objectives, which were decided as part of the stand-by arrangement and stand-by credit facility approved by the IMF for Honduras in 2014.

#### (a) Fiscal policy

Over the course of the three-year IMF arrangements, the government has managed to reduce the central government fiscal deficit steadily, from 4.3% of GDP in 2014 to 3.0% in 2015 and finally to 2.8% in 2016. Meanwhile, the primary deficit dropped to 0.1% of GDP in 2016 (versus 0.4% in 2015).

Overall income climbed by 9.7% in real terms in 2016 compared with the year earlier period. Tax revenue jumped by 11.2% (versus 12.8% in 2015), while non-tax income grew by 6.9%. Efforts to

increase the tax take included: a hike in sales tax (from 12% to 15% for general tax and from 15% to 18% for selective tax), an adjustment in the calculation of fossil fuel consumption tax (the so-called contribution to the resolution of social problems and road asset preservation), and a 1.5% tax on gross income of 10 million lempiras or more. Tax revenue accounted for 89.2% of the central government's total income and 19.1% of GDP in 2016 (versus 17.7% in 2015).

Overall spending rose by 7.9% in real terms in 2016 versus 2015, with current spending climbing by 5.9% and capital spending up by 15.4%, also in real terms. Total spending accounted for 23.7% of GDP, just below the 24% ceiling set by the IMF. Considerable efforts were made to reduce the losses of the national power company (ENEE). Debt servicing and current transfers continue to account for a considerable proportion of current spending (14.7% and 24.8%, respectively).

The balance of total external debt stood at US\$ 7.482 billion at December 2016, representing 35.0% of GDP. The public sector's external debt as a percentage of GDP remained unchanged in 2016 (28.6%), while its internal debt grew by 14.2% versus 2015, to 13.1% of GDP. Internal and external sources accounted for 73.6% and 26.4%, respectively, of fiscal deficit funding.

#### **(b) Monetary and exchange-rate policies**

Honduras uses an inflation target system. The monetary policy rate was lowered on two occasions in 2016, in March and in June, and decreased by 75 basis points overall, to 5.5%. The impact of these cuts reverberated throughout the financial system. The nominal lending rate in local currency slipped from 19.8% in the first quarter of 2016 to 18.9% in the fourth quarter, while the deposit rate fell from 6.1% to 5.8% in the same period. The interest rate spread remained constant, at an annual average of 13.4%. Meanwhile, the average lending and deposit rates in foreign currencies stood at 6.8% and 3.4%, respectively, reflecting a much narrower spread than in the local currency.

The depreciation of the lempira was within the central bank's estimated range, which allows for exchange-rate fluctuations within a 7% trading band. At the end of 2016 the exchange rate stood at 23.5 lempiras to one dollar, pointing to nominal depreciation of 5.1% versus the year earlier period (2.6% in real terms). The Central Bank of Honduras' international reserves amounted to US\$ 3.888 billion, or 45.2% of GDP, at 31 December 2016, representing an increase of 1.7% over the end of 2015.

Total lending to the private sector through formal financial intermediaries jumped by 11.1% in nominal terms compared with the year earlier period, to 260.507 billion lempiras at the end of December 2016. New loans to the private sector through the financial system totalled 225.426 billion lempiras in 2016, down 18.1% over 2015. While household consumption accounted for 23.6% of overall loans, 15.9% was destined for trade, 18.4% for services, 10.3% for the manufacturing industry, 23.9% for mortgages and 7.6% for agricultural activities. As part of its effort to spur lending to the private sector, the Central Bank of Honduras released the final amount of the 13-billion-lempira trust fund set up with the Honduran Bank for Production and Housing (BANHPROVI).

Cash and deposits (M1) posted nominal year-on-year growth of 11.0% (8.1% in real terms) in 2016. Term deposits grew by 11.7% in lempiras and by 10.6% in foreign currencies, increasing the percentage of dollar-denominated savings.

The monetary policy rate remained unchanged in the first quarter of 2017 and lending to the private sector at the end of February 2017 reflected a 0.5% increase versus December 2016. The official exchange rate at 17 May 2017 was 23.46 lempiras to one dollar.

### (c) Other policies

The customs union between Guatemala and Honduras came into effect in May 2016, allowing the free movement of goods and people, and the first integrated customs office opened on 8 December 2016 in El Corinto. The fifteenth negotiating round of the customs union was held in January 2017, and included the adoption of the Central American Invoice and Single Declaration (FYDUCA, in Spanish), which is a form for the purchase and legal possession of goods in both countries, and of the list of items exempt from the free movement of goods.

Six Central American countries and the Republic of Korea concluded negotiations on a free trade agreement on 16 November 2016. Trade between the Republic of Korea and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama amounted to US\$ 4 billion in 2015. The agreement included measures on four key themes: goods trade, services trade, investment and rules of origin. A legal review of the text is currently under way.

## 3. The main variables

### (a) The external sector

Goods exports (not including maquila) amounted to US\$ 3.857 billion in 2016, 1.6% lower than the figure seen in 2015. This performance was influenced by lower export prices for coffee, the country's main export product, and a weaker performance by bananas, the country's second-largest export, which edged up by just 0.8% in value. Non-traditional exports include paper and cardboard, and textiles. The United States remained the top destination for exports (60.9%) followed by neighbouring Central American countries (39.1%).

Goods imports (not including inputs for maquila) decreased by 5.6% in 2016 compared with 2015, amounting to US\$ 8.898 billion. This performance derived mainly from a lower fuel bill and fewer capital goods purchases. Most imports continued to come from the United States (62.0%) followed by Central American countries (38.0%). Raw materials and intermediate goods accounted for 47.5% of total imports, followed by consumer goods (35.0%) and capital goods (14.7%). Fuel and lubricant imports fell by 13.3% (amounting to US\$ 1.165 billion) compared with 2015 (US\$ 1.356 billion). While imports of capital goods declined by 9.8% in value, consumer goods imports rose by 5.5%.

The goods and services trade balance ended 2016 down 7.5% (or 1.8 percentage points of GDP) compared with the year earlier period, at US\$ 3.328 billion (representing 15.6% of GDP). Family remittances grew by 5.4% and were equivalent to 17.9% of GDP. The improvement in the negative balance for goods and stronger remittances helped to reduce the current account deficit, which represented 3.8% of GDP.

The capital account posted a positive balance of US\$ 139.2 million, down 1.4% versus 2015. Foreign direct investment (FDI) was 16.7% weaker than in 2015. Finance, insurance and business services companies captured the lion's share of FDI (40.1%), followed by transport, storage and telecommunications (24.0%) and the manufacturing industry (20.3%). These three sectors accounted for 84.4% of FDI overall in 2016. The main country of origin of FDI in 2016 was Panama (14.9%), followed by the United States (13.9%), Mexico (13.8%), Guatemala (12.4%), Colombia (12.1%), Luxembourg (11.9%) and the United Kingdom (9.4%).

Total exports amounted to US\$ 815.5 million at the end of February 2017, 22.8% higher than the level seen in the year-earlier period. The main export sectors were agriculture (17.3%), agro-industry (33.1%), mining (37.4%) and manufacturing (0.1%). Total imports came to US\$ 1.441 billion, up 10.3% year-on-year, and higher international oil prices were behind a 56.5% jump in fuel imports in the reference period.

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

GDP grew by 3.6% year-on-year in 2016. Domestic demand climbed by 2.1% owing to private and public consumption (up 3.8% and 5.9%, respectively) and was partly offset by the 7.3% decline in gross fixed capital formation. Private consumption gained momentum thanks to an increase in remittances and low inflation, which boosted national disposable income. Gross fixed capital formation decreased because of weaker investment in machinery and equipment for the agriculture, manufacturing and energy sectors. The negative balance of net exports narrowed by 11.5% compared with 2015.

With respect to production by sector, financial intermediation (up 6.7%), construction (up 5.4%), agriculture (up 4.2%) and electricity, gas and water (up 4.1%), posted the strongest performances. Financial intermediation was boosted by the increase in lending to the private sector, as mentioned previously. Construction was helped by the execution of public works and road infrastructure projects, with the production of cement and fibre cement sheets posting the strongest growth (7.7% and 23.9%, respectively). The value of agricultural production rose by 4.2% year-on-year, thanks to higher volumes for the main products: coffee (up 9.3%), tobacco (up 4.7%), rice (up 4.4%) and beans (up 4.8%). Lastly, the electricity, gas and water sector performed well thanks to projects producing power from renewable energy sources (photovoltaic, wind, biomass and water) coming on stream, and to investments by ENEE to improve efficiency in power transmission and distribution.

The monthly index of economic activity showed a year-on-year increase of 5.0% in March 2017. Trends were favourable in manufacturing (up 7.8%), financial intermediation (up 8.3%), agriculture (up 6.5%), trade (up 3.1%), transport and storage (up 6.6%) and electricity and water (up 2.7%).

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

The consumer price index rose by 3.3% year-on-year in 2016, with education and transport recording the strongest increases.

Underlying inflation —which excludes short-term variations deriving from supply shocks— stood at 3.45%, owing to higher prices for food, clothing, household furniture, medicine, air travel and tuition fees.

The national unemployment rate stood at 7.4% in 2016, up 0.1 percentage point over 2015, most likely because of the increase in urban unemployment deriving from rural-urban migration and the absorption capacity of the urban labour market. Open unemployment is not a completely accurate indicator in rural areas where agriculture plays a key role. The unemployment rate for 2016 in Tegucigalpa and San Pedro Sula, where most of the urban population is concentrated, stood at 9.8%. The nominal minimum wage was 258.6 lempiras per day, reflecting a nominal increase of 6.4% (3.0% in real terms).

The year-on-year inflation rate stood at 3.8% in April 2017, while underlying year-on-year inflation came to 4.0% that same month. The national unemployment rate is projected to fall in 2017, to around 4.4%.

Table 1  
**HONDURAS: MAIN ECONOMIC INDICATORS**

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	<b>Annual growth rates b/</b>								
Gross domestic product	4.2	-2.4	3.7	3.8	4.1	2.8	3.1	3.6	3.6
Per capita gross domestic product	2.4	-4.1	2.1	2.2	2.6	1.3	1.6	2.2	2.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.9	-1.9	1.8	6.5	10.7	3.4	2.7	3.2	4.2
Mining and quarrying	-9.3	-0.9	-4.0	-10.6	-3.2	-6.8	-5.1	-3.5	2.0
Manufacturing	3.4	-8.1	4.5	4.4	1.8	3.4	1.5	3.1	3.5
Electricity, gas and water	4.3	4.3	-0.2	3.6	2.9	-2.5	1.3	7.3	4.1
Construction	7.1	-13.3	-2.4	4.4	2.4	-2.5	-8.2	1.0	5.4
Wholesale and retail commerce, restaurants and hotels	3.1	-10.5	3.4	4.2	3.8	2.1	2.0	2.9	2.9
Transport, storage and communications	12.3	8.8	7.4	6.6	5.9	4.7	4.3	4.5	3.1
Financial institutions, insurance, real estate and business services	8.2	0.1	5.7	6.2	5.1	4.1	6.2	6.7	4.6
Community, social and personal services	6.1	6.1	3.2	0.6	2.6	3.2	1.6	1.5	2.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.2	1.2	2.8	2.8	4.0	3.7	1.7	3.1	4.1
Government consumption	4.3	6.9	-1.0	-1.0	2.3	3.2	-2.6	2.7	5.9
Private consumption	3.0	0.1	3.6	3.6	4.3	3.8	2.6	3.1	3.8
Gross capital formation	8.9	-44.2	12.0	24.1	-2.7	-11.4	9.4	23.5	-4.1
Exports (goods and services)	0.9	-15.9	15.7	8.4	9.8	-1.3	3.4	3.5	2.8
Imports (goods and services)	2.4	-26.2	15.2	12.7	6.3	-4.1	3.4	8.9	0.0
Investment and saving c/	<b>Percentajes of GDP</b>								
Gross capital formation	36.1	20.6	21.9	26.0	24.6	21.8	22.2	24.8	23.3
National saving	20.7	16.8	17.6	18.1	15.8	12.1	15.1	19.2	19.4
External saving	15.3	3.8	4.3	7.9	8.7	9.6	7.1	5.6	3.9
Balance of payments	<b>Millions of dollars</b>								
Current account balance	-2 130	-557	-682	-1 409	-1 581	-1 763	-1 372	-1 144	-811
Goods balance	-4 256	-2 545	-2 643	-3 149	-3 012	-3 147	-2 968	-2 909	-2 718
Exports, f.o.b.	6 198	4 827	6 264	7 977	8 359	7 805	8 117	8 188	7 841
Imports, f.o.b.	10 454	7 372	8 907	11 126	11 371	10 953	11 085	11 097	10 559
Services trade balance	-327	-18	-193	-423	-591	-668	-437	-690	-610
Income balance	-521	-632	-727	-974	-1 266	-1 353	-1 606	-1 380	-1 473
Net current transfers	2 973	2 638	2 882	3 138	3 288	3 405	3 638	3 835	3 991
Capital and financial balance d/	2 027	83	1 248	1 489	1 290	2 235	1 816	1 437	864
Net foreign direct investment	1 007	505	971	1 012	851	992	1 315	1 113	801
Other capital movements	1 020	-422	278	476	439	1 244	501	324	63
Overall balance	-103	-474	567	80	-291	473	444	293	53
Variation in reserve assets e/	78	354	-592	-86	283	-485	-459	-303	-66
Other financing	25	120	25	6	8	12	15	10	13
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	94.2	87.1	86.1	85.4	83.8	84.8	82.8	82.6	84.0
Terms of trade for goods (index: 2010=100)	91.1	97.3	100.0	108.4	94.6	88.6	90.4	87.2	87.3
Net resource transfer (millions of dollars)	1 532	-429	546	521	32	894	225	67	-597
Total gross external debt (millions of dollars)	3 499	3 365	3 785	4 208	4 861	6 709	7 184	7 456	7 506
Employment	<b>Average annual rates</b>								
Labour force participation rate g/	51.0	53.1	53.6	51.9	50.8	53.7	56.0	58.3	57.5
Open unemployment rate h/	4.1	4.9	6.4	6.8	5.6	6.0	7.5	8.8	9.0
Visible underemployment rate h/	3.5	4.4	6.7	10.6	10.1	11.6	10.4	13.0	11.2

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
<b>Prices</b>	<b>Annual percentages</b>								
Variation in consumer prices (December-December)	10.8	3.0	6.5	5.6	5.4	4.9	5.8	2.4	3.3
Variation in nominal exchange rate (annual average)	0.0	0.0	0.0	0.0	2.2	4.1	2.0	6.6	4.5
Variation in minimum real wage	0.2	70.4	-4.5	-0.3	0.4	0.4	-1.1	2.1	2.7
Nominal deposit rate i/	6.3	7.2	6.6	5.7	6.1	7.6	7.3	6.7	5.9
Nominal lending rate j/	17.9	19.4	18.9	18.6	18.4	20.1	20.6	20.7	19.3
<b>Central government</b>	<b>Percentajes of GDP</b>								
Total revenue	19.8	17.1	16.9	17.0	16.7	17.0	18.7	19.6	20.9
Tax revenue	16.1	14.2	14.4	14.8	14.7	15.1	16.7	17.7	19.1
Total expenditure	22.4	23.1	21.5	21.6	22.7	24.9	23.1	22.6	23.7
Current expenditure	17.5	18.6	17.9	16.9	17.9	19.8	17.9	18.0	18.5
Interest k/	0.6	0.7	1.0	1.3	1.7	2.1	2.3	2.5	2.5
Capital expenditure	4.8	5.1	3.7	4.6	4.6	5.2	5.2	4.6	5.2
Primary balance	-1.9	-5.3	-3.7	-3.2	-4.3	-5.8	-2.1	-0.6	-0.4
Overall balance	-2.5	-6.0	-4.7	-4.6	-6.0	-7.9	-4.4	-3.0	-2.9
Central government public debt	20.1	23.9	30.4	32.5	34.4	43.1	44.4	44.6	45.5
Domestic	4.9	8.3	13.3	15.0	14.8	15.5	16.5	17.0	17.5
External	15.4	15.7	17.1	17.5	19.6	27.7	27.9	27.6	28.0
<b>Money and credit</b>	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	33.1	35.6	33.3	35.2	38.1	38.0	38.5	37.3	39.2
To the public sector	-1.1	1.5	2.1	4.1	4.1	2.1	2.5	1.1	2.5
To the private sector	52.6	51.7	48.7	48.0	51.9	55.4	56.4	56.5	59.4
Others	-18.4	-17.6	-17.4	-16.9	-17.9	-19.5	-20.3	-20.3	-22.7
Monetary base	11.5	10.3	10.7	10.2	10.0	10.5	11.1	11.0	13.6
Money (M1)	11.8	11.8	12.5	12.3	10.6	10.7	11.1	11.6	12.2
M2	39.0	37.1	38.7	39.0	37.8	39.2	39.8	40.0	42.6
Foreign-currency deposits	14.0	13.7	12.6	12.5	13.3	13.9	15.4	14.0	15.3

**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**

	2015				2016				2017	
	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)	3 542	3 812	3 793	3 700	3 943	4 137	3 995	3 981	4 692	4 644 b/
Real effective exchange rate (index: 2005=100) c/	83.1	83.6	82.2	81.6	83.1	84.0	84.2	84.8	85.3	85.3 b/
Consumer prices (12-month percentage variation)	3.7	3.6	2.8	2.4	2.5	2.4	2.9	3.0	3.9	4.1 b/
Average nominal exchange rate (lempiras per dollar)	21.7	21.9	22.0	21.8	22.6	22.6	22.9	23.2	23.6	23.5
Nominal interest rates (average annualized percentages)										
Deposit rate d/	7.0	6.8	6.5	6.3	6.1	6.0	5.8	5.8	4.0	...
Lending rate e/	20.8	20.9	20.8	20.1	19.8	19.5	19.1	18.9	19.7	...
Interbank rate	6.6	6.2	6.0	6.7	6.7	6.4	6.3	6.4	6.5	6.2 f/
Monetary policy rates	6.8	6.5	6.3	6.3	6.3	5.7	5.5	5.5	5.5	5.5
Domestic credit (variation from same quarter of preceding year)	9.1	8.1	7.0	7.4	4.5	4.7	6.5	7.8	2.5 g/	...
Non-performing loans as a percentage of total credit	1.0	1.1	1.1	1.0	1.0	1.1	1.1	0.9	1.1	1.0 f/

**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/ Weighted average of lending rates.

f/ Figures as of April.

g/ Figures as of January.