

## Honduras

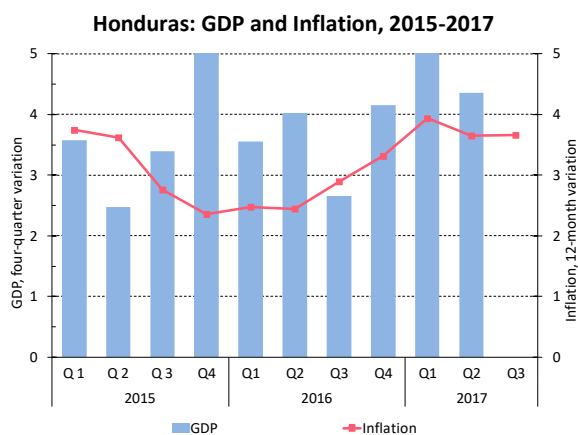
ECLAC estimates economic growth of the Honduran economy for 2017 at 3.7%, slightly higher than the 3.6% recorded in 2016, thanks to the expansion of private consumption and investment, and favourable external economic conditions. The central government deficit is expected to close the year at 3.2% of GDP (compared to 2.8% in 2016), reflecting an increase in total spending. Rising family remittances and a higher value for exports (coffee in particular) have partially offset the increase in imports and helped to keep the current account deficit's growth to a moderate pace (rising from 3.8% of GDP in 2016 to 4.7% and 2017). At the end of 2017, year-on-year inflation is expected to be 4.0%, due to rising electricity rates and higher local fuel prices. The open unemployment rate will reach 6.7% of the economically active population (EAP) in 2017, 0.7% less than in 2016.

After three consecutive years of fiscal adjustments, the central government deficit fell from 7.9% in 2013 to 2.9% in 2016. For 2017, expanding public investment is expected to raise the deficit to 3.6% of GDP. In the first seven months of the year, the central government's total revenues showed a year-on-year real increase of 7.8%, under the impulse of rising tax revenues (8.9%) as well as non-tax revenues (23.4%). This outcome reflects the efforts made to improve the collection of income and the production of goods and services taxes, as well as the national customs system, together with the elimination of tax exemptions. Total central government spending recorded a real year-on-year increase of 9.9%, owing to a jump of 23.1% in capital spending and 6.2% in current outlays.

In the third quarter of 2017, the central government debt was equivalent to 47% of GDP: the external debt represented 30 percentage points of that amount, and the internal debt the remaining 17 percentage points. The external debt rose, reflecting sovereign bond issues in the amount of US\$ 700 million, intended to cover the debts of the National Electric Energy Company (ENEE) at more favourable rates. This debt performance is within the parameters established by the agreement signed with the International Monetary Fund (IMF). In addition, bonds on the domestic market were refinanced at a better rate (down from 6.5% to 6.25%) on international markets, to the tune of US\$ 200 million. This move also helped to improve the credit rating of the Government of Honduras.

Against the backdrop of low inflationary pressure, the central bank adopted a neutral policy stance in 2017, keeping the monetary policy rate at 5.5% in the first nine months of the year. In September, the nominal lending interest rate was 20.51% (compared to 19% for the same month of 2016), while the deposit rate was 3.94% (5.79% in 2016). This increase in lending interest rates has yet to make itself felt in a restriction of credit. In August 2017, lending to the commercial, services and consumer sectors was up by more than 10% over August 2016 (standing at 13.7%, 12.5% and 11.5% respectively).

At 31 October 2017, the exchange rate closed at 23.51 lempiras to the dollar, a nominal depreciation of 0.09% since 30 December 2016. In



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

September 2017, the real exchange rate showed a depreciation of 0.42% compared to the same month in 2016, attributable to the appreciation of the dollar against most currencies. Net international reserves recorded a balance of US\$ 4.637 billion at 31 August 2017, up by 13.9% from the close of the previous year. The reserves are expected to represent 20.8% of GDP in 2017.

On the trade policy front, the customs union between Guatemala and Honduras has come into effect, and El Salvador has begun negotiations to join the pact. The negotiations and the legal review for the free-trade treaty between Central America and the Republic of Korea were also concluded in 2017. The Ministers of Foreign Trade of the member countries are expected to sign the treaty in December and send it on to their legislative assemblies for approval.

In the first eight months of 2017, the total value of merchandise exports and imports grew at a year-on-year rate of 12.3% and 8.6%, respectively. On the export side, the value of coffee shipments was up by 57.9% year-on-year, as a result of greater production and higher prices for this commodity. On the other side, the growth of imports of base metals and their manufactures (18.9%) and of electrical machinery, equipment and supplies (9.3%) to August 2017 reflected the increase in investment and the reinvestment of profits in the country. At the end of the second quarter of 2017, inflows from services provided abroad were up by 7.2% over the same period of 2016. Family remittances rose by 13.5% in the second quarter of 2017 over the same period in 2016, amounting to US\$ 1.108 billion, while expenditure on services provided by foreigners declined by 8.8% with respect to the second quarter of 2016. Cumulative flows of foreign direct investment (FDI), driven by reinvestment of profits in the country, totalled US\$ 617 million in the first half of 2017, an increase of 2.6% over the cumulative amount for the same period of 2016.

Quarterly GDP recorded year-on-year growth of 5.1% in the first half of the year. On the supply side, the second quarter was marked by solid performances in the financial sector (4.6%), transportation (2.3%) and construction (2.9%). On the demand side, growth was driven by the domestic component, which was up 5.0% in the first half of the year, compared with the same period in 2016. Among the components of domestic demand, final consumption in 2017 was 3.1% greater than in the first half of 2016, and gross domestic investment was higher by 1.6%.

In October 2017, year-on-year inflation stood at 3.97%, within the central bank's target range (between 3.5% and 4.5%). The prices that showed the greatest increases were those for fuels (5.3%), education (6.2%), alcoholic beverages and tobacco (6.5%), and personal care articles (6.7%). On the other hand, there was a decline in the prices of certain foodstuffs. The average monthly minimum wage, in effect as of 1 January 2017, was 8,448.4 lempiras and the average minimum wage was 35.2 lempiras per hour, representing an increase of 8.87% in nominal terms, and 5.21% in real terms, over the level in 2016. Meanwhile, the open unemployment rate will reach 6.7% of EAP in 2017.

#### Honduras: main economic indicators, 2015-2017

	2015	2016	2017 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	3.6	3.6	3.9
Per capita gross domestic product	2.2	2.2	2.6
Consumer prices	2.4	3.3	4.0 <sup>b</sup>
Money (M1)	18.9	10.2	20.1 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-0.3	1.7	2.1 <sup>e</sup>
Terms of trade	-6.5	3.4	0.0
	<b>Annual average percentage</b>		
Open urban unemployment rate	8.8	9.0	...
Central government			
Overall balance / GDP	-3.0	-2.9	-3.6
Nominal deposit rate <sup>f</sup>	6.7	5.9	3.9 <sup>e</sup>
Nominal lending rate <sup>g</sup>	20.7	19.3	20.0 <sup>e</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	9 293	9 022	9 535
Imports of goods and services	12 891	12 350	12 969
Current account balance	-1 144	-810	-575
Capital and financial balance <sup>h</sup>	1 437	864	1 172
Overall balance	293	53	597

**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 August

d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

e/ Figures as of September.

f/ Weighted average of deposit rates.

g/ Weighted average of some lending rates.

h/ Includes errors and omissions.

For 2018, ECLAC estimates that GDP will increase by 3.7%, thanks to growth in the country's main trading partner, the United States, as well as higher international coffee prices and rising coffee output, continued growth in domestic demand, and ongoing work on infrastructure investment projects. The deficit of the non-financial public sector will widen with the expansion in public investment, while the current account balance will stand at around 5% of GDP. Inflation is expected to come in at around 4.5%. Such a scenario would be possible, as long as political stability is achieved after the November 2017 elections.