Honduras

ECLAC estimates that economic growth in Honduras will be 3.6% in 2018, less than the 4.8% achieved in 2017. The slowdown reflects less abundant inflows of foreign exchange, owing to a decline in remittances, and a drop in the value of net exports. The value of exports to June 2018 fell, owing to a drop in the price of coffee (down 15.7% on June 2017), the country’s main export product. The current account deficit widened marginally to 3.3% of GDP, reflecting an increase in the oil bill. The central government deficit will close the year at 3.4% of GDP (compared with 2.7% in 2017), as a result of energy subsidies. Inflation will end the year at an estimated 4.7% year-on-year (4.70% in 2017) owing to higher fuel prices and their impact on electricity rates. Open unemployment will stand at 5.7% of the economically active population in 2018, down by 1.5 percentage points on the 2017 figure.

After five years of fiscal adjustment—the agreement with the International Monetary Fund (IMF) was approved on 4 December 2014—the central government deficit narrowed from 7.9% of GDP in 2013 to 2.7% in 2017. The deficit is expected to widen again in 2018, however, owing to a larger deficit in the income balance of the national electric power company (ENEE). In the first eight months of the year, total central government revenues rose 1.8% in real terms year-on-year, driven by gains in both tax income (2.8%) and non-tax income (0.9%). For the time being, tax exemptions remain in effect, in line with the commitments made with IMF. Total central government spending between January and August 2018 grew by 4.4% year-on-year, owing to an increase in current spending, which climbed by 7.3% compared with the year-earlier period.

In the second quarter of 2018, central government debt stood at 47% of GDP (0.7% less than in December 2017). External debt accounted for 28.9%, while domestic debt accounted for the remaining 18.1%. Domestic debt jumped by 13.8% compared with December 2017, and was serviced with 17.2% of total central government revenues. Public external debt amounted to US$ 7.156 billion by August 2018, with a servicing cost of US$ 322 million. This level of debt falls within the parameters set by the Fiscal Responsibility Act, according to which the total non-financial public sector deficit must not exceed 1.2% of GDP, and by the Stand-By Arrangement with IMF, which ended in December 2017 and is expected to be renewed in the next few months.

Despite inflationary pressure, the central bank maintained its monetary policy rate at 5.5%. In July 2018, the real lending rate in lempira stood at 12.78% (compared with 15.16% in July 2017), while the deposit rate was 0.49% (1.04% in 2017). This decrease in real lending rates had a positive impact on credit growth. In July 2018, new loans in lempira granted by banks and credit institutions recorded average growth, in real terms, of around 10.9% compared with July 2017.

At the end of October, the average selling exchange rate was 24.24 lempiras to the dollar, reflecting nominal depreciation of 2.16% compared with the end of 2017, owing to the appreciation of the dollar against most currencies. Net international

Honduras: GDP, Inflation and Unemployment, 2016-2018

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
reserves stood at US$ 4.885 billion at 31 July 2018, or 8.0% higher than in July 2017, representing 5.5 months of imports.

With respect to trade policy, Honduras and Ecuador signed an agreement on administrative cooperation in customs matters, with a view to negotiating a partial scope and economic complementarity agreement between the two countries. On 21 February 2018 in Seoul, Costa Rica, El Salvador, Honduras, Nicaragua and Panama signed a free trade agreement between Central America and the Republic of Korea, as well as a memorandum of understanding to promote trade, investment and cooperation. Honduras will have preferential access to products such as melons, shrimp, sea cucumber, lobster, vegetables, sugar, textiles, and car harnesses. This agreement is in the process of being endorsed by the National Congress.

In the first seven months of 2018, the value of total goods exports fell by 2.9% year-on-year, while that of imports rose by 9.9% year-on-year. The value of coffee and banana exports declined by 9.8% and 3.8% year-on-year, respectively, owing to falling international prices and to lower volumes as a result of unfavourable weather conditions. Meanwhile, fuel imports jumped by 11.6%, reflecting higher international oil prices. Flows of foreign direct investment (FDI)—driven by the reinvestment of profits in the country, in activities such as the maquila sector, services and transport, storage and communications—totalled US$ 620 million in the first half of 2018, an increase of 4.1% over the amount for the same period of 2017. The terms of trade in goods by the end of the first half of 2018 had decreased by 6.2% compared with the year-earlier period.

Quarterly GDP recorded year-on-year growth of 3.5% in the first half of the year. On the supply side, there were strong performances by the financial sector (7.1%), electricity, gas and water (7.0%) and mining (5.8%). On the demand side, growth was driven by private consumption (4.2%) and investment (6.4%).

By October 2018, year-on-year inflation stood at 4.7%, within the central bank’s target range (between 3.0% and 5.0%). The greatest price increases were seen in education (7.2%), transport (6.1%) and personal care items (5.5%).

The open unemployment rate is expected to be 5.7% of the economically active population in 2018, while the average monthly minimum wage as of 1 January 2018 was 8,910 lempiras, and the average hourly minimum wage was 37.13 lempiras, representing an increase of 5.5% in nominal terms compared with 2017.

For 2019, ECLAC estimates that GDP will increase by 3.7%, thanks to moderate growth in the country’s main trading partner, the United States, a slight increase in remittances, a decline in fuel prices and ongoing investment in and spending on infrastructure projects. The central government’s deficit will increase, but the implementation of the Fiscal Responsibility Act should cause the non-financial
public sector deficit to narrow. The current account deficit is expected to run to 4% of GDP, while inflation is projected to be around 4.0%.