HONDURAS

1. General trends

The Honduran economy grew by 3.7% in 2018, compared to the previous year's 4.8% —the slowdown reflecting weaker growth of remittances, a reduction in export value and a rise in fuel prices. The central government's fiscal deficit came in at 2.1% of GDP (compared to 2.7% in 2017), which was within the limits set by the 2019–2022 Medium-term Macrofiscal Framework and the Fiscal Responsibility Act. The current account deficit at the end of the year was 4.2% of GDP (up from 1.8% a year earlier), owing to a sharp increase in the value of fuel imports reflecting a higher average international price for the products in question. At the end of 2018, consumer prices were up by 4.2% year-on-year (compared to a rise of 4.7% in 2017), which is within the central bank's target range of 4.0% plus or minus 1 percentage point. Higher electricity rates and transport fares were offset by weaker food prices. The national open unemployment rate was 5.7%, down from 6.7% in 2017.

For 2019, ECLAC is forecasting 3.5% growth in the Honduran economy —slightly less than in the previous year's rate owing mainly to the expected slower expansion of the United States economy and less buoyant international trade. On the other hand, weather conditions will likely favour the coffee crop (which represents 5% of Honduran GDP); and the export volume of this product is set to reach 500,000 tons, compared to 428,633 tons in 2018. Household consumption is also expected to be firmer, boosted in particular by remittances. The central government's fiscal deficit will be around 1.8% of GDP, thereby complying with the Fiscal Responsibility Act. The government expects to achieve this figure through a combination of higher tax revenues and actions to combat tax evasion, along with cuts in current spending. Nonetheless, major public investments are under way, such as the solar energy project for 416 schools and the renovation of an export wharf on the Atlantic coast. Inflation is expected to end the year around 4.3%, while the current account deficit will be roughly 1%.

2. Economic policy

In 2018, economic policy was geared towards strengthening the government's macroeconomic objectives, in particular the fiscal consolidation and discipline measures specified in the Fiscal Responsibility Act.

(a) Fiscal policy

The central government fiscal deficit has been whittled down in the last few years, dropping from 4.3% of GDP in 2014 to 2.1% in 2018, when a primary surplus was recorded for the second year running (0.8% of GDP, following 0.02% in 2017).

In 2018, central government current revenues grew at a real annual rate of 0.8% and represented 19.5% of GDP. Tax revenues posted real annual growth of 2.4%, and non-tax income declined by 22.8% in real terms. Total tax revenues represented 18.0% of GDP and non-tax income 1.5%. Among direct taxes, receipts from income tax grew by 3.0% in real terms; in the case of indirect taxes, revenue from the general sales tax grew by 2.0%, while the tax on imports generated 1.3% more, both figures in real terms. The boost to direct taxes came from the measures adopted to improve tax collection, especially the broadening of the income tax base, while in the case of indirect taxes, the higher value of fuel imports helped to boost revenue from import taxes. On the other hand, the entry into force of various trade agreements, such as the Guatemala-Honduras customs union, and the exemption of agribusiness production from sales tax mitigated against tax revenues.

In 2018, total spending decreased by 1.4% year-on-year to represent 22.4% of GDP. Current expenses grew by a nominal 2.2%, although in real terms they dropped by 2.1%, while capital expenditures increased by 5.0% in nominal terms (0.7% real). These results fulfilled both the Fiscal Responsibility Act and the Medium-term Macrofiscal Framework, which allow a maximum 7.5% nominal increase in current expenditure for 2018. Debt service (17.5% of total current expenses) and current transfers (26.3% of the total) remain the largest current expenditure items.

The total external debt stock in late December 2018 stood at US$ 9.019 billion, equivalent to 37.9% of GDP (compared to 37.4% a year earlier). Of this, the public sector share reported a cumulative balance of US$ 7.378 billion, equivalent to 30.5% of GDP. The domestic debt of the non-financial public sector (NFPS) stood at 76.697 billion lempiras in December 2018, up by 17.2% on the year and equivalent to 13.4% of GDP.

For 2019, the NFPS deficit is expected to reach 1% of GDP, in compliance with the aforementioned Fiscal Responsibility Act. The target is expected to be attained through reductions in the deficit of the national electric power company, Empresa Nacional de Energía Eléctrica (ENEE) and in central government current expenditure. In the first quarter of 2019, central government current income reached 22.384 billion lempiras, corresponding to 19.6% of the total income budgeted for the year, while current expenditures totalled 19.567 billion lempiras, 18.5% of the budgeted amount, thereby producing an initial surplus of 2.817 billion lempiras.

(b) Monetary and exchange-rate policy

Monetary policy in Honduras continues to be based on a system of explicit inflation targets. The monetary policy interest rate was held at 5.5% throughout 2018, while the average annual nominal lending rate in national currency fell from 19.26% in 2017 to 17.8% in 2018. The average annual nominal rate on deposits edged up in the same period, from 4.69% to 4.71%. Nonetheless, real interest rates fell from 14.75% to 12.9% on loans and from 0.73% to 0.35% on deposits in the same period. Thus, financial intermediation spreads narrowed to an average of 10.5% per year, compared to 13.9% in 2017. The average foreign-currency lending and deposit interest rates were 8.2% and 2.07%, respectively.

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The depreciation of the lempira was within the range estimated by the central bank, which envisages cumulative annual movements in the exchange rate within a flotation band of 7% relative to the price recorded at the start of the year. As of 31 December 2018, the mean between the buying and selling exchange rate was 24.42 lempiras per dollar, representing a nominal depreciation of 3.28% since the end of 2017 (0.6% in real terms). At the same date, the central bank's net international reserves were up by

4.6% relative to their end-2017 level, at US$ 4.853 billion, which was equivalent to 20.6% of GDP and represented 4.5 months of imports.

The total balance of bank credit to the private sector stood at 306.631 billion lempiras on 31 December 2018, representing a nominal increase of 14.1% from a year earlier. In terms of destination sectors, lending to agriculture grew by 18.0%, credit to the manufacturing industry increased by 23.7% and that targeting commercial activity expanded by 18.3%. Mortgage lending grew by 12.4% and consumer credit was up by 12.7%. Households and non-profit institutions accounted for 49.7% of the total balance of private sector credit outstanding, while the remaining 50.3% went to business.

Cash in circulation and current account deposits recorded a nominal year-on-year expansion of 5.8% in 2018, compared to the previous year's growth of 14.8%. This slackening of money supply growth reflected a normalization of the demand for cash balances, after economic agents had taken on more liquidity in 2017 for precautionary reasons associated with electoral instability. Time deposits in lempiras expanded by 12.6%, while those in foreign currency grew by 4.6%.

In the first quarter of 2019 the monetary policy rate was raised from 5.50% to 5.75% as a precautionary measure, since forecasts in late 2018 saw inflation moving above the middle of the range set for 2019. On 30 May 2018, the official exchange rate was 24.46 lempiras to the United States dollar, practically the same as at the end of the previous year. In the context of measures adopted by the Central Bank of Honduras to strengthen the organized foreign-exchange market, in April 2019 the regulation was amended to allow foreign-exchange agents to trade up to 30% of the foreign exchange acquired from private clients amongst themselves, compared to the previous limit of just 20%. The regulation also states that 70% of foreign currency purchases must be surrendered to the central bank on the first business day following purchase. This measure is expected to help shorten periods of financial volatility, reduce the need for intervention to maintain the exchange rate within the flotation band (1% either side of the average base price of the previous seven auctions) and improve the country's international reserves position.

(c) Other policies

The Free Trade Agreement between the Republic of Korea and Costa Rica, El Salvador, Honduras, Nicaragua and Panama was signed on 21 February 2018. The treaty provides preferential access for exports of Central American textile, agricultural and fishery products; and it eliminates taxes on up to 95% of the goods traded between the participating countries. It also provides greater legal certainty for foreign direct investment (FDI). The treaty is awaiting ratification by the Honduran National Congress.

On 6 May 2019, an agreement was signed between the International Monetary Fund (IMF) and the Government of Honduras, for a 24-month blended Stand-by Arrangement (SBA) and Standby Credit Facility (SCF) for US$ 311 million. The agreement seeks to underpin macroeconomic stability and promote a number of reforms, in particular in ENEE.

3. The main variables

(a) The external sector

In 2018, goods exports from Honduras amounted to US$ 8.637 billion, up by 0.2% relative to the previous year's amount. Agricultural exports were boosted by an increase in the value of banana shipments (by 1.8%), while the fall in the international price of coffee, which remains the country's main export product (accounting for 12.9% of total exports), reduced the value of shipments of this grain (by 15.3%).

There were also decreases of 21.2% and 4.9% in the value of palm oil and aquaculture shrimp exports, respectively. These products constitute the country's main export basket, apart from manufactures. Goods for the processing industry (maquila) accounted for 49.4% of total exports and grew by 4.5% compared to 2017. The United States remains the main export destination (absorbing 35.3% of the total, excluding maquila exports), followed by the rest of the Central American countries (20.1%, excluding maquila).

On the other side of the trade account, goods imports totalled US$ 10.495 billion in 2018, 8.4% more than in the previous year. The main factors contributing to this growth include increases in the value of imports of oil and fuels (18.0%), industrial raw materials (11.2%) and capital goods (9.9%). Imports continue to be sourced mainly from the United States (42.2%), followed by Central American countries (18.2%) and China (9.6%). Imports of raw materials and intermediate goods accounted for 50.8% of the total, followed by consumer goods (31.4%) and capital goods (15.4%). The largest increases in import value were in electricity (33.1%), oil and fuels (18.0%) and raw materials and goods for agriculture (16.9%).

Goods and services trade ended the year with a deficit of US$ 4.338 billion (18.2% of GDP), 32.8% larger than in 2017. Family remittances totalled US$ 4.760 billion in 2018, representing 20.0% of GDP and annual growth of 10.6%. This expansion was due to increased employment of workers of Latin American origin and the growth of the United States economy. The terms of trade for goods and services deteriorated by 6.2%.

In 2018, inward FDI totalled US$ 1.226 billion (equivalent to 5.1% of GDP), up by 3.4% on the previous year's figure. FDI went mainly to maquila (32.0%), services (including financial services) (31.0%) and transport, storage and communications (16.4%). The United States was the main FDI source in 2018 (providing 25.4% of the total).

In the first quarter of 2019, exports of finished goods totalled US$ 1.125 billion. This was 11.6% less than in the year-earlier period, owing partly to the 26.9% drop in the price of coffee, the main export product. The most buoyant exports were melons and watermelons (up by 60.5%) and silver (up 27.5%). Imports of finished goods totalled US$ 2.477 billion in the quarter, representing growth of 3.1% over the same period in 2018. The value of fuel imports increased by 17.0% in the reference period on the back of higher international oil prices.

(b) Economic activity

While GDP grew at an annual rate of 3.0% in the first three months of 2018, the expansion gathered pace in the following quarters, with annualized rates of 4.0%, 3.4% and 4.5%, respectively. By expenditure component, private consumption contributed 3.2 percentage points to the GDP growth rate for the year as a whole (3.7%), investment contributed 1.3 percentage points, government consumption 0.3 points, and exports 0.8; meanwhile imports subtracted 1.8 percentage points from the overall growth rate. Although private consumption grew by 4.4% in 2018, it slowed in comparison to the previous year's 4.7%, owing to a smaller increase in family remittances and higher average fuel prices. Gross fixed investment expanded by 5.4% in 2018 (compared to 9.2% in the previous year), thanks firstly to new public infrastructure projects, including the maintenance and construction of roads and public hospitals, and secondly to private construction, which expanded on the back of the growth of mortgage lending in response to preferential interest rates under a government programme. Gross fixed investment by the public sector grew by 0.1%, while private investment increased by 6.4%.

The most vibrant sectors were mining (up 7.5%), construction (7.1%) and financial services (6.1%), with exports of products such as zinc and lead boosting the first of these. Construction benefited from public and private projects, with residential construction growing by 6.9% and industrial construction up by 13.1%. Private construction was stimulated by preferential interest rates under a government programme, as noted above. Lastly, growth in the financial sector was founded on interest income from mortgage lending.

The monthly index of economic activity (IMAE) for March 2019 was up by 2.9% relative to a year earlier, although this was slightly less than the equivalent increase reported in March 2018 (3.0%). In the first quarter of 2019, the hotel and restaurants, electricity and water, financial and construction sectors all performed strongly, with gains of 9.6%, 7.0%, 5.9% and 4.9%, respectively.

(c) Prices, wages and employment

In 2018, price increases were driven by hikes in electricity tariffs and transport fares. These items contributed 1.07 and 0.55 percentage points, respectively, to the final inflation figure (4.22% as of December 2018). The increase in electricity rates reflects the gradual regularization of tariffs by ENEE. In the oil market, the international price of West Texas Intermediate (WTI) averaged US$ 64.9 per barrel, which was 27.5% higher than the 2017 average. Core inflation, which excludes food and energy products owing to short-term variations caused by supply shocks, was 4.23%.

The average monthly minimum wage in 2018 was 8,910.71 lempiras, 1.3% higher in real terms than in 2017. The national unemployment rate dropped to 5.7% in 2018 (1 percentage point lower than the previous year's average). The unemployment rates in Tegucigalpa and San Pedro Sula, which have the two largest urban populations, were 9.3% and 7.8%, respectively, in 2018, compared to the previous year's 9.8% and 7.3%.

In April 2019, inflation came in at 4.86% year-on-year, while core inflation was 4.22%. On 8 January 2019, the monthly minimum wage was set at 9,433.24 lempiras.

Table 1

HONDURAS: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	3.7	3.8	4.1	2.8	3.1	3.8	3.9	4.8	3.7
Per capita gross domestic product	1.8	2.0	2.3	1.1	1.4	2.2	2.4	3.3	2.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.8	6.5	10.7	3.4	2.8	2.6	4.8	10.8	2.7
Mining and quarrying	-4.0	-10.6	-3.2	-6.8	-8.3	-1.0	5.4	12.2	7.5
Manufacturing	4.5	4.4	1.8	3.4	3.0	3.9	3.0	4.1	3.8
Electricity, gas and water	-0.2	3.6	2.9	-2.5	1.6	8.8	6.5	3.0	5.9
Construction	-2.4	4.4	2.4	-2.5	-9.6	2.3	6.2	7.3	7.1
Wholesale and retail commerce, restaurants and hotels	3.4	4.2	22.8	2.1	2.0	3.1	3.2	3.2	-11.5
Transport, storage and communications	7.4	6.6	5.9	4.7	4.4	4.2	3.6	3.7	3.7
Financial institutions, insurance, real estate and business services	5.7	6.2	5.1	4.1	6.8	7.9	5.2	6.1	-26.3
Community, social and personal services	3.2	0.6	22.1	3.1	1.5	1.8	2.6	2.5	-14.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.8	2.8	4.0	3.7	1.7	3.6	4.1	4.3	4.0
Government consumption	-1.0	-1.0	2.3	3.2	-2.6	2.1	4.4	2.2	2.1
Private consumption	3.6	3.6	4.3	3.8	2.6	3.9	4.0	4.7	4.4
Gross capital formation	12.0	24.1	-2.7	-11.4	9.4	22.4	-5.2	7.9	5.6
Exports (goods and services)	15.7	8.4	9.8	-1.3	3.4	2.9	0.9	5.2	1.4
Imports (goods and services)	15.2	12.7	6.3	-4.1	3.4	8.5	-1.6	5.6	2.8
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	21.9	26.0	24.6	21.8	22.2	25.1	23.4	24.2	25.5
National saving	17.6	18.1	15.8	12.1	15.1	20.4	20.7	22.4	21.3
External saving	4.3	7.9	8.7	9.6	7.1	4.8	2.7	1.8	4.3
Balance of payments	**Millions of dollars**								
Current account balance	-682	-1 409	-1 581	-1 763	-1 372	-978	-567	-409	-1 004
Goods balance	-2 643	-3 149	-3 012	-3 147	-2 968	-2 949	-2 599	-2 677	-3 531
Exports, f.o.b.	6 264	7 977	8 359	7 805	8 117	8 226	7 960	8 647	8 669
Imports, f.o.b.	8 907	11 126	11 371	10 953	11 085	11 175	10 559	11 324	12 200
Services trade balance	-193	-423	-591	-668	-437	-445	-463	-589	-807
Income balance	-727	-974	-1 266	-1 353	-1 606	-1 426	-1 508	-1 636	-1 600
Net current transfers	2 882	3 138	3 288	3 405	3 638	3 842	4 003	4 493	4 934
Capital and financial balance d/	1 248	1 489	1 290	2 235	1 816	1 269	617	1 293	1 049
Net foreign direct investment	971	1 012	851	992	1 315	952	900	1 013	1 146
Other capital movements	278	476	439	1 244	501	317	-283	281	-96
Overall balance	567	80	-291	473	444	290	50	885	46
Variation in reserve assets e/	-592	-86	283	-485	-459	-303	-66	-884	-50
Other financing	25	6	8	12	15	13	16	-1	4
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	86.1	85.4	83.8	84.8	82.8	82.6	84.1	85.9	84.3
Terms of trade for goods (index: 2010=100) g/	100.0	108.4	94.6	88.6	90.4	84.6	87.4	84.7	79.2
Net resource transfer (millions of dollars)	546	521	32	894	225	-145	-874	-343	-547
Total gross external debt (millions of dollars)	3 785	4 208	4 861	6 709	7 184	7 456	7 499	8 600	9 019
Employment	**Average annual rates**								
Labour force participation rate h/	53.6	51.9	50.8	53.7	56.0	58.3	57.5	59.0	60.4
Open unemployment rate i/	6.4	6.8	5.6	6.0	7.5	8.8	9.0	8.2	8.0
Visible underemployment rate h/	7.4	10.4	10.5	11.7	12.5	14.1	11.5	11.8	14.2

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	6.5	5.6	5.4	4.9	5.8	2.4	3.3	4.7	4.2
Variation in nominal exchange rate (annual average)	0.0	0.0	2.2	4.1	2.0	6.6	4.5	2.9	1.8
Variation in minimum real wage	-4.5	-0.2	0.4	0.4	-1.1	2.1	2.7	-0.6	…
Nominal deposit rate j/	5.5	4.7	5.1	6.6	6.4	5.8	5.1	4.7	4.7
Nominal lending rate k/	18.9	18.6	18.4	20.1	20.6	20.7	19.3	19.3	17.8
Central government	**Percentages of GDP**								
Total revenue	16.9	17.0	16.7	17.0	18.5	19.2	20.0	20.3	20.3
Tax revenue	14.4	14.8	14.7	15.1	16.5	17.3	18.3	18.3	18.5
Total expenditure	21.5	21.6	22.7	24.9	22.9	22.1	22.8	23.0	22.4
Current expenditure	17.9	16.9	17.9	19.8	17.7	17.6	17.8	17.7	17.1
Interest	1.0	1.3	1.7	2.3	2.5	2.6	2.6	2.7	3.0
Capital expenditure	3.7	4.6	4.6	5.2	5.1	4.6	5.0	5.3	5.3
Primary balance	-3.7	-3.2	-4.3	-5.6	-1.9	-0.5	-0.3	0.0	0.9
Overall balance	-4.7	-4.6	-6.0	-7.9	-4.3	-3.0	-2.7	-2.7	-2.1
Central government public debt	30.6	32.8	34.4	43.4	44.4	44.4	46.1	47.8	48.7
Domestic	13.4	15.2	14.7	15.6	16.3	15.3	18.3	18.1	19.2
External	17.2	17.7	19.7	27.8	28.1	29.1	27.8	29.6	29.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	33.3	35.4	38.3	38.1	38.3	36.8	41.2	41.6	44.4
To the public sector	2.1	4.1	4.1	2.1	2.5	1.2	4.3	2.4	1.8
To the private sector	47.5	47.3	51.3	54.7	55.1	54.6	56.2	57.5	62.3
Others	-16.3	-16.0	-17.1	-18.8	-19.3	-19.1	-19.3	-18.3	-19.8
Monetary base	10.7	10.2	10.0	10.5	11.0	10.7	13.0	12.5	12.8
Money (M1)	12.5	12.3	10.6	10.7	11.0	11.4	11.7	12.3	12.3
M2	38.7	39.0	37.8	39.2	39.4	39.3	42.3	44.5	45.4
Foreign-currency deposits	12.6	12.5	13.3	13.9	15.2	13.7	14.7	14.8	14.6

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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ Nationwide total.
i/ Urban total.
j/ Weighted average rate of deposit rates.
k/ Weighted average of lending rates.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	5.7	3.6	5.6	4.3	3.0	4.0	3.4	4.5	...	...
Gross international reserves (millions of dollars)	4 692	4 677	4 711	4 821	4 987	5 108	4 944	4 862	5 040	5 208 c/
Real effective exchange rate (index: 2005=100) d/	85.4	85.5	86.1	86.3	85.6	84.9	83.9	83.0	83.2	83.1 c/
Consumer prices (12-month percentage variation)	3.9	3.7	3.7	4.7	4.4	4.1	4.4	4.2	4.1	5.1 c/
Average nominal exchange rate (lempiras per dollar)	23.6	23.5	23.4	23.5	23.6	23.8	24.0	24.2	24.4	24.5 c/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	4.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.9 c/
Lending rate f/	19.7	19.6	19.3	18.4	18.1	17.9	17.6	17.6	17.4	17.3 c/
Interbank rate	6.5	6.2	6.2	6.4	6.1	6.2	6.3	6.2	6.1	6.1 c/
Monetary policy rates	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.8	5.8 c/
Domestic credit (variation from same quarter of preceding year)	14.4	19.1	19.5	15.3	18.9	16.6	17.4	16.2	11.4	10.5 g/

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/ Figures as of May.
d/ Quarterly average, weighted by the value of goods exports and imports.
e/ Weighted average rate of deposit rates.
f/ Weighted average of lending rates.

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