

HONDURAS

1. General trends

In 2020, the GDP of Honduras contracted by 9%, after expanding by 2.7% in 2019. In the midst of the national and global health crisis, private consumption decreased significantly, public and private investment dropped and external demand collapsed. Added to these losses were the damages caused by Hurricanes Eta and Iota.

The central government fiscal deficit of 6.6% (2.5% in 2019) was the result of falling tax revenue in the context of weaker economic activity and rising public spending to respond to the health crisis and rebuild in the wake of the hurricanes. The current account recorded a surplus equivalent to 2.9% of GDP (compared to a 2.4% deficit in 2019), thanks to increased remittances and to the drop in imports caused by lower aggregate demand. Inflation ended the year at 4.0% (down from 4.1% in 2019), which was the midpoint of the central bank's target range plus or minus 1 percentage point. The national open unemployment rate jumped to 10.9% in 2020, up from the annual average of 5.7% in 2019.

In 2020, the Government of Honduras implemented a set of economic policy measures to mitigate the effects of the health crisis and Hurricanes Eta and Iota. The Production Sector and Workers' Assistance Act provided for tax deferrals and special deductions for micro and small enterprises and for transfers, jointly financed by the business sector and the government, as a means of temporarily shoring up employment and income levels. To meet financing needs, the National Congress authorized borrowing of up to US\$ 2.5 billion during fiscal years 2020 and 2021, with non-financial public debt capped at 55% of GDP. The cap on the non-financial public deficit was raised by 1.0%, to 5.6% of GDP for 2020 and 4.0% of GDP for 2021. A decree was also issued ordering the reduction and reallocation of the non-financial public sector budget with a view to strengthening actions to prevent contagion and control the coronavirus disease (COVID-19) pandemic. Public spending on measures to address the pandemic amounted to 1.8% of GDP.

The Economic Commission for Latin America and the Caribbean (ECLAC) projects economic growth of 5% in Honduras in 2021, driven mainly by the country's own economic recovery and the considerable economic expansion of its primary trading partner, the United States. However, the negative effects of Hurricanes Eta and Iota on national production in Honduras, along with the economic consequences of the COVID-19 pandemic and lagging vaccination efforts, will have a detrimental impact on the country's economic growth. The central government fiscal deficit is expected to hover around 7% of GDP, while the current account deficit will close out 2021 at approximately 3% of GDP. The price index will increase by approximately 4% under pressure from rising international oil prices. Assuming the economy recovers, the unemployment rate is expected to drop below 10%.

On Sunday, 14 March 2021, primary elections were held. General elections will be held on 28 November to elect the president, 128 members of the National Congress, 20 members of the Central American Parliament and 298 mayors.

2. Economic policy

(a) Fiscal policy

In 2020, total central government revenues decreased by 18.5% in real terms (-2.8% in 2019). The decline is due to the significant reduction in tax revenue (-20.4%), which resulted from the economic contraction and the implementation of the following tax relief measures: an extension of the income tax declaration and payment deadline for the 2019 fiscal year until 31 August 2020, an 8.5% discount for taxpayers who paid by 30 April 2020 and a deadline extension for advance income tax payments for fiscal year 2020.

In 2020, total expenditure, amounting to 23.6% of GDP, increased by 0.2% in real terms (compared to a 0.8% decrease in 2019). Despite the sharp contraction in capital expenditure (-14.6%), extraordinary needs in the context of the pandemic led to a 4.2% real increase in current expenditure, which reflects increases in current transfers (9.2%) and spending on goods and services (13.7%).

At year-end, spending in response to the COVID-19 pandemic totalled 10.528 billion lempiras (US\$ 452.3 million), broken down as follows: 61.9% on procuring medical supplies and equipment and setting up facilities to care for COVID-19 patients; 37.7% on social assistance, by way of food assistance programmes and unemployment insurance; and 0.3% on economic recovery programmes. At December 2020, expenditure related to damage caused by tropical storms amounted to 964.3 million lempiras (US\$ 38.9 million), equivalent to 60% of the funds allocated to that end in the approved budget.

The non-financial public deficit came in at 5.5% of GDP (compared to a 0.9% deficit in 2019), in compliance with the exception clause in the Fiscal Responsibility Act. The surplus in the public pension and social security funds partially offset the increased expenditure by the central government and non-financial public enterprises.

At end-2020, the total public debt balance stood at 58.1% of GDP (up 13 percentage points from 2019). Domestic debt (19.7% of GDP) accounted for 33.9% of the total, and external debt (38.4% of GDP) for the remaining 66.1%. Multilateral lending agencies financed 78.1% of the public debt as follows: US\$ 549.4 million from the Central American Bank for Economic Integration (CABEI), US\$ 466 million from the International Monetary Fund (IMF), US\$ 390.2 million from the Inter-American Development Bank (IDB), US\$ 142.2 million from the International Development Association (IDA), US\$ 3.6 million from the International Fund for Agricultural Development (IFAD) and US\$ 1.3 million from the Organization of the Petroleum Exporting Countries (OPEC). The issuance of sovereign bonds generated an additional US\$ 600 million.

In the first quarter of 2021, total central government revenues saw real year-on-year growth of 10.9% owing to higher tax receipts (13.5% year-on-year, in real terms). The increase was partly due to the deferred collection, in January 2021, of advance payments of income tax owed in December 2020. Total expenditure rose by 4.5% year-on-year (0.5% in real terms) owing to increased spending on salaries and wages and a rise in current transfers.

At March 2020, public sector external debt contracted by 0.6% (US\$ 58.5 million) compared to December 2020, as the result of net amortization of US\$ 22.0 million and favourable variation in exchange rates. In March, the government took on \$220 million in new debt financed by IDA and US\$ 44.7 million financed by IDB.

(b) Monetary and exchange-rate policy

Monetary policy in Honduras was expansionary in 2020. The central bank lowered its monetary policy rate on four occasions (10 February, 24 March, 3 August and 27 November) by a total of 250 basis points, to 3.0%. It also reduced the cost of funding for the banking system, slashed mandatory investments in national currency to 0.0% and cut the legal reserve requirement from 12.0% to 9.0%. In addition, guarantee funds were set up to enable financial institutions to issue loans to the agricultural and business sectors, with the government guaranteeing between 65% and 90% of the amounts loaned by financial institutions.

The lower policy rate had a limited impact on the rest of the financial system. In the fourth quarter of 2020, the average annualized lending rate was 16.79% (12.48% in real terms), as compared with 17.34% (12.82% in real terms) in the same quarter of 2019. The deposit rate was 4.35% (0.50% in real terms), compared with 5.0% (0.96% in real terms) in 2019. Lending to the private sector slowed in 2020 to an annual growth rate of 7.0% in 2020, down from 8.5% in 2019. The sectors with the greatest increases in lending were industry (12.6%), services (11%) and commerce (7.8%). Broken down by currency, annual lending was up 7.6% in local currency and 5.3% in foreign currency (compared to growth of 11.3% and 13.2% in 2019, respectively).

In the fourth quarter of 2020, the average nominal exchange rate was 24.45 lempiras to the dollar, representing a slight nominal appreciation of 1.47% against the year-earlier period. The Central Bank of Honduras continued to implement flexible exchange-rate policies and reduced the foreign currency surrender requirement from 60% to 30%. At year end, net international reserves stood at US\$ 8.149 billion (an increase of US\$ 2.340 billion), equivalent to 8.8 months of imports.

In the first half of 2021, the monetary policy interest rate held steady at 3%. In May, the monthly average nominal exchange rate rose by 0.6% compared to December 2020, reaching 24.16 lempiras to the dollar. In the first quarter of 2021, the lending rate was 16.46% (11.98% in real terms) and the deposit rate was 3.93% (-0.07% in real terms). In the first four months of the year, lending increased by 3.5% year-on-year (compared to an 8.8% expansion in the year-earlier period).

3. The main variables**(a) The external sector**

Goods exports amounted to \$US 7.65 billion in 2020, a year-on-year contraction of 12.6%, owing to a 25% drop in maquila exports resulting from temporary business closures and reduced demand for textiles in the United States. The value of coffee exports fell 8.1%, with a sharp decrease in volume (-22.2%) partially offset by a price hike.

Services exports totalled US\$ 722 million, down 38.7% from 2019. Travel-related revenue plummeted (-65.8%) and declines were also observed in exports of communications services (-18.9%) and business services (-6.2%).

Imports of goods totalled US\$ 8.958 billion, down 13.5% relative to 2019. Oil and fuel imports fell 36.2%, with the price effect responsible for 72% of the decline and the volume effect accounting for the remaining 28%. Imports of manufacturing inputs declined by 6.9%, while imports of consumer goods and capital goods dropped 9.1% and 23%, respectively.

Service imports (US\$ 1.837 billion) fell at an annual rate of 23.6%. In 2020, the decline in travel- and transport-related imports, by 67.4% and 20.2%, respectively, contrasted with the rise in imports of other business services (0.3%) on the back of insurance payouts by foreign reinsurers totalling US\$ 448.1 million at year end.

Foreign direct investment (FDI) flows amounted to US\$ 418.6 billion, down 16% from FDI inflows in 2019. Reinvested earnings (US\$ 314.3 million), channelled primarily into the service sectors, were the main component of FDI flows. In contrast, the manufacturing industry recorded net outflows of US\$ 165.3 million, owing to debt write-offs to foreign subsidiaries as well as the acquisition of assets in the form of debt securities investments and loans to foreign companies. In 2020, family remittances amounted to US\$ 5.573 billion, up US\$ 188.7 million from the previous year, and accounted for 23.6% of GDP (2 percentage points more than in 2019). Factors contributing to the increase include the expansion of government transfers to families amid the pandemic in the United States, the main source of these remittance flows.

In April 2021, exports had declined by 13.1% year-on-year, reflecting falling exports of bananas, melons, watermelons and sugar, four crops that, despite price increases, were harmed by the tropical storms.

Imports had grown by 27.6% year-on-year to April 2021. Consumer goods imports rose 29.5%, in particular non-durable goods. Imports of capital goods reached US\$ 553.4 million, up 42.2% from April 2019, as a result of increased purchases of transport vehicles and machinery for the textile and agricultural industries.

(b) Economic activity

The economy began to contract in March 2020, when the state of emergency was declared and physical distancing measures and restrictions on movement were imposed in response to the health crisis. In May 2020, the monthly index of economic activity (IMAE) fell by 21.7% year-on-year. In the second quarter of 2020, GDP shrank by 18.5%, though the contraction was less pronounced in the third and fourth quarters (8.3% and 7.6%, respectively). The easing of physical distancing measures, the gradual reactivation of economic activity and the impact of relief measures implemented by the Government of Honduras led to an improvement in economic performance heading into the third quarter of 2020. Late in the year, Hurricanes Eta and Iota wrought considerable damage on the productive capacity of the manufacturing and agricultural sectors.

Private consumption contracted by 6.2% owing to declining family incomes caused by business closures and layoffs. Public consumption was up 2.9%, propelled by increased purchases of goods and services to respond to the health crisis and the emergency relief efforts in the wake of November floods.

On the supply side, manufacturing fell by 14.0% and all sectors of activity contracted. The largest declines were in paper and cardboard products (-32.4%), textiles and clothing (-27.9%) and wood and wood products (-20.6%).

There was a 25.4% slump in construction as a result of the disruption of residential and non-residential construction and civil engineering works (highways, roads and bridges) caused by the confinement measures and the impacts of Hurricanes Eta and Iota (especially on private projects in the northern part of the country).

In March 2021, the monthly index of economic activity showed a year-on-year rise of 13.3% (compared to -11.5% in 2020) as production, for the most part, recovered. The manufacturing sector

recorded 6.8% growth (compared to -5.9% in March 2020), fuelled by the increased production of textiles and clothing (12.1%) and the manufacture of machinery and equipment (60.4%) in response to growing demand from the United States.

In March 2021, trade in goods rose by 5.6% (compared to -3.7% for the year-earlier period), driven by sales in transport equipment and radio and television equipment, among others. Post and telecommunications services also grew, by 2.8% (4.7% in March 2020).

Meanwhile, in the same period, the agricultural sector contracted by 7.9% (-4.8% in March 2020), owing to lost crops and delayed harvests in the aftermath of the tropical storms that struck late in the year. Sugar cane, oil palm, staple grains and bananas were hardest hit (-11% on average).

(c) Prices, wages and employment

For most of 2020, the monthly year-on-year variation of the consumer price index (CPI) stayed within the target range set by the central bank. Nevertheless, lower aggregate demand and the drop in international fuel prices drove down prices overall, for an average annual variation of 3.5%. Year-on-year inflation (December–December) was 4.0%. The price index for food and non-alcoholic beverages was also up 4.0%, while prices of alcoholic beverages and tobacco rose by 5.4%. The costs of private health and education services increased by 10.9% and 9.4%, respectively.

In 2020, the national open unemployment rate was 10.9% (444,774 people). Unemployment was concentrated in the proportion of the population under 25 years of age (36.8%). From a gender perspective, women's employment has been hardest hit by the economic downturn: male unemployment stood at 8.7% (4.2% in 2019), while female unemployment climbed to 13.7% (8.1% in 2019). To absorb the economic shocks caused by the pandemic, businesses had to suspend or lay off workers. According to an analysis carried out by the National Autonomous University of Honduras (UNAH) on the resilience of businesses to COVID-19, micro and small enterprises have had to suspend or lay off between 35% and 37% of their workforce.

The minimum monthly wage in 2020 ranged from 6,763 lempiras to 12,248 lempiras. Within that range, the minimum wage varied according to the number of employees and the sector in which companies operated. In nominal terms, the minimum monthly wage increased by 5.0% at companies with between 1 and 50 employees, by 6.75% at those with between 51 and 150 employees and by 7.0% at those with 151 or more employees.

Year-on-year inflation to May 2021 was 4.8%. However, the rate is expected to decline in the coming months, given that a negative output gap will be maintained. In June 2021, after six months of negotiations, the minimum wage was raised by 4.01% at companies with fewer than 50 employees, 5% at those with between 50 and 150 employees and 8% at those with 151 or more employees. For the agricultural and tourism sectors, a blanket 4.01% increase was agreed irrespective of number of employees. The increases took effect on 1 July. As the economy recovers, the open unemployment rate is expected to drop below 10%.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
	Annual growth rates b/								
Gross domestic product	4.1	2.8	3.1	3.8	3.9	4.8	3.8	2.7	-9.0
Per capita gross domestic product	2.2	0.9	1.3	2.0	2.1	3.1	2.1	1.0	-10.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	10.7	3.4	2.8	2.6	4.8	10.3	2.6	-1.0	-6.3
Mining and quarrying	-3.2	-6.8	-8.3	-1.0	5.4	14.1	12.7	1.9	-23.5
Manufacturing	1.8	3.4	3.0	3.9	3.0	3.9	3.9	2.0	-14.0
Electricity, gas and water	2.9	-2.5	1.6	8.8	6.5	3.8	7.2	2.4	-3.9
Construction	2.4	-2.5	-9.6	2.3	6.2	8.5	1.7	0.3	-25.4
Wholesale and retail commerce, restaurants and hotels	3.8	2.1	2.1	3.1	3.2	3.6	4.4	2.9	-17.8
Transport, storage and communications	5.9	4.7	4.4	4.2	3.6	3.3	3.6	3.1	-4.5
Financial institutions, insurance, real estate and business services	5.1	4.1	6.8	7.9	5.0	4.9	4.6	7.0	-2.1
Community, social and personal services	2.6	3.2	1.5	1.6	2.6	2.7	2.6	2.5	-0.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.0	3.7	1.7	3.6	4.1	4.6	4.9	4.2	-5.0
Government consumption	2.3	3.2	-2.6	2.1	4.4	1.4	1.0	1.7	2.9
Private consumption	4.3	3.8	2.6	3.9	4.0	5.2	5.5	4.7	-6.2
Gross capital formation	-2.7	-11.4	9.4	22.4	-5.2	12.6	7.9	-16.4	-26.2
Exports (goods and services)	9.8	-1.3	3.4	2.9	0.9	4.9	1.4	2.4	-20.4
Imports (goods and services)	6.3	-4.1	3.4	8.5	-1.6	7.2	4.5	-2.4	-18.5
Investment and saving c/	Percentages of GDP								
Gross capital formation	24.6	21.8	22.2	25.1	23.4	24.8	26.6	22.7	18.7
National saving	16.0	12.2	15.2	20.4	20.2	23.6	20.0	20.4	21.7
External saving	8.5	9.5	6.9	4.7	3.1	1.2	6.6	2.4	-2.9
Balance of payments	Millions of dollars								
Current account balance	-1 581	-1 763	-1 372	-980	-683	-288	-1 582	-596	700
Goods balance	-3 012	-3 147	-2 968	-2 949	-2 599	-2 753	-3 818	-3 361	-2 558
Exports, f.o.b.	8 359	7 805	8 117	8 226	7 960	8 656	8 644	8 788	7 683
Imports, f.o.b.	11 371	10 953	11 085	11 175	10 559	11 409	12 462	12 149	10 241
Services trade balance	-591	-668	-437	-445	-578	-775	-1 062	-1 229	-1 115
Income balance	-1 266	-1 353	-1 606	-1 426	-1 508	-1 406	-1 882	-1 901	-1 610
Net current transfers	3 288	3 405	3 638	3 841	4 003	4 646	5 180	5 894	5 983
Capital and financial balance d/	1 290	2 235	1 816	1 270	733	1 173	1 627	1 585	1 211
Net foreign direct investment	851	992	1 315	952	900	1 035	895	500	366
Other capital movements	439	1 244	501	319	-168	138	732	1 085	845
Overall balance	-291	473	444	290	50	885	46	988	1 911
Variation in reserve assets e/	283	-485	-459	-303	-66	-884	-50	-993	-2 381
Other financing	8	12	15	13	16	-1	4	5	470
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	83.8	84.8	82.6	81.8	83.0	84.4	84.1	82.8	80.5
Terms of trade for goods (index: 2010=100)	101.4	95.4	98.9	104.3	104.6	104.9	98.4	96.5	100.3
Net resource transfer (millions of dollars)	32	894	225	-144	-759	-234	-250	-312	71
Total gross external debt (millions of dollars)	4 861	6 709	7 184	7 456	7 499	8 572	9 112	9 604	10 981
Employment g/	Average annual rates								
Labour force participation rate	50.8	53.7	56.0	58.3	57.5	59.0	60.4	57.3	59.5
Open unemployment rate	3.6	3.9	5.3	7.3	7.4	6.7	5.7	5.7	10.9
Visible underemployment rate	10.5	11.7	12.5	14.1	11.5	11.8	14.2	10.6	27.3

Table 1 (concluded)

	2012	2013	2014	2015	2016	2017	2018	2019	2020 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	5.4	4.9	5.8	2.4	3.3	4.7	4.2	4.1	4.0
Variation in nominal exchange rate (annual average)	2.2	4.1	2.0	6.6	4.5	2.9	1.8	2.8	0.3
Nominal deposit rate h/	5.1	6.6	6.4	5.8	5.1	4.7	4.7	4.9	4.7
Nominal lending rate i/	18.4	20.1	20.6	20.7	19.3	19.3	17.8	17.3	17.0
Central government	Percentages of GDP								
Total revenue	16.7	17.0	18.5	19.2	20.0	20.3	20.2	19.2	16.6
Tax revenue	14.7	15.1	16.5	17.3	18.3	18.3	18.4	17.5	14.8
Total expenditure	22.7	25.0	22.9	22.1	22.8	23.0	22.3	21.6	23.6
Current expenditure	17.9	19.8	17.7	17.6	17.8	17.7	17.0	17.1	19.3
Interest	1.7	2.3	2.5	2.6	2.6	2.7	3.0	3.0	3.4
Capital expenditure	4.6	5.2	5.1	4.6	5.0	5.3	5.3	4.6	4.2
Primary balance	-4.3	-5.7	-1.9	-0.4	-0.1	0.0	0.9	0.6	-3.5
Overall balance	-6.0	-8.0	-4.3	-3.0	-2.7	-2.7	-2.1	-2.5	-7.0
Central government public debt									
Domestic	34.4	43.4	44.4	44.4	46.1	47.5	48.8	48.9	58.9
External	14.7	15.6	16.3	15.3	18.3	17.8	19.2	19.5	25.1
	19.7	27.8	28.1	29.1	27.8	29.7	29.6	29.4	33.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	38.6	38.4	38.6	37.1	42.6	41.1	44.0	44.5	50.2
To the public sector	4.1	2.1	2.5	1.2	4.3	2.4	1.8	1.9	5.2
To the private sector	51.3	54.7	55.1	54.6	57.6	57.7	62.8	63.9	69.8
Others	-16.7	-18.4	-18.9	-18.8	-19.3	-19.0	-20.6	-21.3	-24.8
Monetary base	10.0	10.5	11.0	10.7	13.0	12.5	12.7	13.7	22.8
Money (M1)	10.6	10.7	11.0	11.4	11.7	12.3	12.3	13.4	18.2
M2	37.8	39.2	39.4	39.3	42.3	43.9	44.9	48.2	60.8
Foreign-currency deposits	13.3	13.9	15.2	13.7	14.7	14.7	14.5	13.9	16.3

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/ Weighted average rate of deposit rates.

i/ Weighted average of lending rates.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2019				2020				2021	
	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/	3.0	1.7	3.3	2.6	-1.3	-19.2	-7.9	-7.8	1.2	...
Gross international reserves (millions of dollars)	5 040	5 233	5 279	5 576	6 120	6 843	7 740	8 264	8 440	8 752 c/
Real effective exchange rate (index: 2005=100) d/	83.2	83.0	82.5	82.5	81.6	80.1	80.5	79.7	79.1	79.3 c/
Consumer prices (12-month percentage variation)	4.1	4.8	4.4	4.1	3.9	2.7	3.4	4.0	3.9	4.7
Average nominal exchange rate (lempiras per dollar)	24.4	24.6	24.6	24.7	24.7	24.8	24.7	24.4	24.2	24.0
Nominal interest rates (average annualized percentages)										
Deposit rate f/	4.7	4.9	4.9	5.0	4.9	4.8	4.7	4.4	3.9	3.5 e/
Lending rate g/	17.4	17.3	17.3	17.3	17.4	17.0	16.9	16.8	16.5	16.3 e/
Interbank rate	6.1	6.1	6.1	6.0	5.4	4.5	4.0	1.3	1.0	1.0 c/
Monetary policy rates	5.8	5.8	5.8	5.7	5.1	4.5	4.0	3.3	3.0	3.0
Domestic credit (variation from same quarter of preceding year)	12.1	11.5	10.2	9.3	7.3	8.0	4.1	4.7	8.2	7.4

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/ Figures as of April.

f/ Weighted average rate of deposit rates.

g/ Weighted average of lending rates.