

## Honduras

The Honduran economy grew by 3.8% in 2008, which was slower than the 6.3% recorded in 2007. Growth remained driven by private consumption sustained by income from family remittances. Annual inflation rose from 8.9% in 2007 to approximately 12%, partly owing to supply factors. The balance-of-payments current account deficit reached a fairly unsustainable level of 12% of GDP. The trade deficit was also extremely wide (29% of GDP), although this was partly offset by incoming current transfers and capital inflows. Nevertheless, up to October international reserves shrank by US\$ 160 million. In August, Honduras joined the Bolivarian Alternative for Latin America and the Caribbean (ALBA).

For 2009, ECLAC forecasts GDP growth of 2%. The economy will be less buoyant as a result of recession in the United States economy, which will hit the real economy in the form of lower demand for Honduran exports, a fall in income from family remittances and reduced inflows of foreign direct investment (FDI). A stand-by agreement was approved with the International Monetary Fund (IMF) in April 2008. This funding is a precautionary arrangement for the authorities. The priority aims of the agreement are to consolidate and reorient the fiscal position and strengthen the energy sector.

The fiscal deficit narrowed from 2.9% of GDP in 2007 to around 2% of GDP in 2008. In real terms, total revenues are expected to grow by 2% for the year, while current expenditure should fall by 3% and capital expenditure is predicted to grow by 0.5%. Between January and May 2008, the fiscal accounts worsened. Total real government revenues dropped by 2%, although they appeared to have recovered somewhat in the second half of the year, thanks to the implementation of the law against Tax Evasion Act. Total expenditure expanded by 16% in the first five months, before declining in the second half of the year as a result of reduced fuel and electricity subsidies. Across-the-board subsidies for electricity consumption and transfers to State-owned electricity enterprises were maintained. In September, the National Congress approved a reform to the Income Tax Act that raised the tax threshold from 70,000 lempiras to 130,000 lempiras (equivalent approximately to US\$ 6,900).

In the first half of 2008, the monetary policy rate was raised on four occasions to stand at 9%, and remained at

this level for the second half of the year. Up to August, real monetary aggregates posted annual declines of 11% (in the case of M2) and 7% (for M3). The real growth rate of credit to the private sector is predicted to close the year at 5% (compared with growth of 21% in 2007). To tackle the international financial crisis, in October the monetary authorities reduced the legal reserve requirement from 12% to 10%, thereby freeing up 1.8 billion lempiras (equivalent to US\$ 95 million) for the national banking system. That measure improved the availability of credit in a banking system affected by restricted external credit, and also provided resources to cover damage caused by floods. In 2008, the inflation target rose to a range of 8% to 10%. Up to November, the nominal exchange rate remained stable at 18.9 lempiras to the dollar. Between December 2007 and September 2008, the lempira appreciated by 5% in real terms.

The country's financial sector appears relatively solid, with limited exposure to contamination and contagion from the international financial crisis. However, the parent companies of the main foreign banks have urged their subsidiaries in Honduras to maintain a higher level of liquidity, which will reduce the amount of credit available in the future. In mid-2008, the assets of foreign banks represented 20% of total assets in the Honduran banking system.

Between December 2007 and August 2008, public external debt climbed by 9%, while internal debt rose by 15%. In response to the drastic reduction in liquidity, the Government of Honduras is requesting a range of soft credit lines. The agreements with the Government

of the Bolivarian Republic of Venezuela remain in force, with US\$ 30 million requested for the National Bank for Agricultural Development (BANADESA) and US\$ 100 million through the Bolivarian Alternative for Latin America and the Caribbean (ALBA). In addition, the Government of Honduras (along with other Central American governments) has requested financing from the Central American Bank for Economic Integration (CABEI). Honduras and other countries also have access to a joint fund of the Inter-American Development Bank (IDB) for tackling hikes in food prices.

The country's economy expanded by 3.8% in 2008, which was much lower than the 6.3% growth rate recorded in 2007. The only sector to have bettered its performance from the previous year was agriculture, which grew by 5.5% compared with 5.0% in 2007. In contrast, up to August 2008 construction posted year-on-year growth of 13%, compared with 23% in 2007. Growth was driven by internal demand, and investment was also buoyant this year. In the wake of the heavy rains that fell in October, farmers stopped planting bean crops, which will cause supply problems over the months to come. Losses were also recorded in maize crops.<sup>1</sup>

Up to October, consumer prices posted a year-on-year increase of 13.1%, pushed up mainly by higher food and oil prices throughout the year. In July, year-on-year variation in food prices was 24%, before dropping to 20% in October. Thanks to subsidies, the prices of transport remained about average. High inflation cancelled out the increase in minimum wages, so that these remained stable in real terms.

As of August, exports of traditional products benefited from good prices to display solid growth of 21%, which was four percentage points higher than the growth rate observed in 2007. Non-traditional exports were also more buoyant: 11% compared with 6% in 2007. The growth rate of goods for processing (maquila sector) continued to decrease to stand at 1.5%. Up to August, merchandise imports increased by 25%, on the strength of the stable exchange rate of the lempira, the rising oil

#### HONDURAS: MAIN ECONOMIC INDICATORS

	2006	2007	2008 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	6.3	6.3	3.8
Per capita gross domestic product	4.2	4.2	1.7
Consumer prices	5.3	8.9	10.9 <sup>b</sup>
Real minimum wage	5.1	2.8	-0.0
Money (M1)	24.0	16.3	5.1 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-2.5	-1.8	-2.9 <sup>e</sup>
Terms of trade	-4.6	-1.9	-2.7
<b>Annual average percentages</b>			
Urban unemployment rate	4.9	4.0	...
Central government			
overall balance / GDP	-1.1	-2.9	-1.9
Nominal deposit rate	9.3	7.8	8.9 <sup>f</sup>
Nominal lending rate	17.4	16.6	17.4 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	5 881	6 344	6 639
Imports of goods and services	8 301	9 594	10 789
Current account	-509	-1 225	-1 683
Capital and financial account	820	1 063	1 457
Overall balance	311	-162	-225

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2008.

<sup>c</sup> Twelve-month variation to September 2008.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October.

<sup>f</sup> Average from January to September, annualized.

bill and capital goods imports (as imports of consumer goods slowed). However, the balance-of-payments current account deficit will stand at around 12% of GDP, and would have been wider if oil prices had not dropped from July onwards. By the end of 2008, the growth rate of remittances is expected to be 8%, which is two percentage points lower than in 2007. In October 2008, the United States authorities agreed to extend the Temporary Protection Status (TPS) for 75,000 Hondurans until June 2010, which will help mitigate any impact on remittances.

<sup>1</sup> According to official data, as a result of the heavy rains, there were at least 34 deaths, 16 people missing, 69,000 people affected and losses amounting to almost US\$ 154 million.