

Honduras

In 2011 the Honduran economy performed solidly, growing by 3.2% (compared with 2.8% in 2010). Among the contributing factors were an upturn in consumption, thanks to higher remittances, and expanding external demand as the country's main external markets (United States of America and Mexico) picked up. It is estimated that 12-month inflation to December will stand at about 7%, as a result of higher prices for petroleum and staple foods, and, to a lesser extent, the economic upturn. The current account deficit will reach about 6.5% of GDP in 2011.

In the first half of 2011, the central government recorded a fiscal deficit of 1.214 billion lempiras—equivalent to 1.4% of GDP and slightly below the target of 1.5% of GDP as of 30 June agreed with the International Monetary Fund (IMF). This outcome was influenced by the success of the tax reform adopted in 2010, which is expected to boost revenue for fiscal 2011 by 0.6% of GDP. Expenditure to June 2011 showed a year-on-year increase of 9.5%, attributable mainly to transfers to municipalities and the PATUCA III project.¹ The fiscal deficit is projected to close 2011 equivalent to 3.9% of GDP, above the target of 3.1% agreed for the year with IMF and 0.4% higher than in 2010 as a result of the increase in subsidies, especially for urban transport.

The central bank maintained a restrictive monetary policy and in November 2011 agreed to raise the benchmark rate by 50 basis points to an annual rate of 5.5% (it was 4.5% in 2010). This, in addition to interventions in the foreign-exchange market, has made it possible to keep the nominal exchange rate steady, acting as an inflation anchor. Even though banking system assets posted year-on-year growth of 6.5% to June 2011, the monetary restriction meant that growth was concentrated in investments (attracted by the central bank's interest rate). The loan portfolio edged up by only 0.9% during the same period. The financial indicators performed positively to June 2011, when the acid-test ratio² reached 41% and the capital adequacy

ratio was 14.9%. Both ratios showed an improvement and are above regulatory requirements.

To September 2011, the monthly index of economic activity recorded growth of 5.3%, driven by the strong performance of some sectors, including banking and insurance (15.9%), transport and communications (7.8%), commerce (7.3%) and agriculture, forestry and fishing (5.5%). The solid performance of the banking and insurance sector is attributable to the growth of the investment portfolio, especially central bank bonds. The expansion of domestic and external commerce helped boost the transport sector. The communications sector benefited from higher investments in telephony, which led to a rise in mobile telephone traffic (minutes). Most of the growth in the agriculture, forestry and fishing sector came from fishing, which surged by 24.2% on the back of a 24.9% increase in farmed shrimp output. In agriculture, higher prices drove coffee harvesting and output up; banana production rose by 7.1%. However, tropical depression 12-E had a negative impact, pushing down the growth expected at the beginning of 2011 by about 0.35% of GDP.

Through November 2011 the inflation rate fell to 5.4%. However, it could end the year at an annual rate of about 7% owing to supply problems associated with tropical depression 12-E and the increase in money in circulation during the Christmas season.

The open unemployment rate rose slightly in 2011 to 4.1% (compared with 3.9% in May 2010), with a high concentration among the younger population

¹ A hydroelectric power project financed with Petrocaribe resources.

² Measured as central bank deposits plus liquid investments divided by total deposits.

(under 24 years). The main reason was the closure of some maquila companies that have moved to Nicaragua because of security concerns and a desire for greater wage-competitiveness.

The balance-of-payments surplus can be explained, in part, by the improvement in exports, which had already shot up by more than 45% through September (14.9% in 2010). Imports had expanded by 26.5% in the same period (compared with 16.2% in 2010). The main exports were coffee, bananas, melons and goods from the free zones.

The trade deficit, which widened by about 13%, was offset by the increase in remittances (year-on-year growth of 12% to September) and disbursements from multilateral financial institutions. According to the central bank, monthly remittances averaged US\$ 325 per person and 93.9% of total remittances were used for consumption.

With regard to progress on trade policy, Honduras, Mexico, Guatemala and Nicaragua signed a free trade agreement in November 2011. By thus combining the existing agreements, the signatories will benefit from economies of scale and foster integration, for example, in relation to sales of inputs for the Mexican automotive industry.

The improvement in the external accounts (in the first two weeks of July international reserves stood at over US\$ 3 billion) allowed the central bank to reinstate the exchange-rate band on 21 July 2011. However, this meant that the central bank had to step up its interventions in the foreign exchange market in an effort to keep the nominal exchange rate steady in the face of changing market expectations as the European crisis triggered exchange-rate volatility in the countries in the region. After hitting a low of US\$ 2.431 billion in mid-November, international reserves are expected to total about US\$ 2.5 billion at year's end (equivalent to approximately four months of imports).

HONDURAS: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	-2.1	2.8	3.2
Per capita gross domestic product	-4.1	0.8	1.2
Consumer prices	3.0	6.5	5.4 ^b
Real minimum wage	70.4	-4.5	-0.2
Money (M1)	5.0	15.4	19.0 ^c
Real effective exchange rate ^d	-7.7	-1.2	-1.0 ^e
Terms of trade	6.9	2.7	6.6
Annual average percentages			
Open urban unemployment rate	4.9	6.4	6.8 ^f
Central government overall balance / GDP	-6.2	-4.8	-3.9
Nominal deposit rate ^g	10.8	9.8	8.2 ^h
Nominal lending rate ⁱ	19.4	18.9	18.6 ^h
Millions of dollars			
Exports of goods and services	5 778	6 764	8 646
Imports of goods and services	8 403	9 881	12 092
Current account balance	-516	-955	-1 060
Capital and financial balance ^j	91	1 523	795
Overall balance	-424	569	-265

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

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c Twelve-month variation to October 2011.

^d A negative rate indicates an appreciation of the currency in real terms.

^e January to October average, year-on-year variation.

^f Figure for May.

^g Weighted average rate on time deposits.

^h January-October average.

ⁱ Weighted average of the system lending rates.

^j Includes errors and omissions.

External debt increased from US\$ 3.772 billion in December 2010 (24.5% of GDP) to US\$ 3.891 billion (22.5% of GDP) in September 2011, of which US\$ 935.6 million is private-sector debt.

Economic growth of close to 3% is projected for 2012, owing to a slowdown in external demand. Inflation is forecast to stand at about 6%; the current account deficit will represent some 9% of GDP.