

HONDURAS

1. General trends

Real GDP in Honduras grew by 12.5% in 2021, after shrinking by 9.0% in 2020. The economic recovery was driven by stronger external demand, stemming from growth among the country's major trading partners, especially the United States, supported by greater domestic consumption and an increase in private investment, as household and corporate incomes recovered.

The central government fiscal deficit came in at 5.0% of GDP, two percentage points lower than the 7.0% of 2020. Higher current expenditure and capital transfers were offset by increased tax revenue and the postponement of a number of investment programmes aimed at rehabilitation, reconstruction and economic revival. Following the surplus of 2.8% of GDP recorded in 2020, the balance of payments current account posted a deficit equivalent to 4.9% of GDP, owing to a significant increase in goods imports reflecting the strengthening of domestic demand and higher prices of raw materials and fuels. This was partially mitigated by larger flows of family remittances and exports. Following the 4.0% recorded in 2020, inflation ended the year at 5.3%, which was above the central bank's target range of $4\% \pm 1$ percentage point. The annual average national open unemployment rate was 8.6%, up from 10.9% in 2020.

On 27 January 2022, Xiomara Castro, of the Libertad y Refundación (Libre) Party, took office as president of the country. One of the first actions of the new government was to declare a state of fiscal and financial emergency in the public sector and to authorize the Ministry of Finance to borrow up to US\$ 2 billion, if necessary. In addition, the income and expenditure budget for 2022 was amended to provide additional fiscal space to finance the various social and public investment programmes outlined in the government plan. In this regard, the exception clause of the rules of the Fiscal Responsibility Law was amended to raise the non-financial public sector deficit ceiling from 1% to 4.9% in 2022, and then to 4.4% in 2023, with a view to reducing it by 0.5% per year until it attains the target set. It was also decided that the annual increase in nominal central government expenditure should not exceed 9.5% in 2022 and 8.5% in 2023. Additional measures included the approval of the energy subsidy, targeted on a million families living in poverty and consuming less than 150 kilowatts per month, the reduction in the price of gasoline and repeal of the Organic Law of the Employment and Economic Development Zones.

The Economic Commission for Latin America and the Caribbean (ECLAC) forecasts 3.8% growth in the GDP of Honduras in 2022. This expansion is expected to be driven mainly by consumption, thanks to an increase in disposable income resulting from the growing flow of remittances and the recovery of employment and private investment. However, as the statistical base effect caused by the deep contraction in 2020 dissipates, growth is expected to be lower than in 2021 and to be affected by the slower growth momentum in the country's main trading partners, higher commodity prices, particularly in the case of energy, and the uncertainty generated by current geopolitical conflicts. The central government fiscal deficit is forecast at about 4% of GDP, while the current account deficit is projected to end 2022 at around 4.5% of GDP. The price index is set to rise by about 6.0%, pressured by higher international fuel prices and stronger domestic demand. The unemployment rate is expected to be below 8%, in line with the reactivation of the economy.

2. Economic policy

(a) Fiscal policy

In 2021, the central government's current income posted real year-on-year growth of 31.8%, as a result of a 31.1% increase in tax revenues and a 44.9% rise in non-tax income. The growth in tax revenues, which represent 88.1% of total income, reflects the recovery of economic activity (higher revenue from taxes on sales, services and trade) and the deferral of December 2020 income tax payments to January 2021. Total central government expenditures increased by 14.1% year-on-year in real terms. Capital expenditure grew by 38.7%, while current expenditure expanded by 8.7%, as a result of higher wage payments and current transfers.

In 2021, central government spending mainly focused on mitigating the adverse effects of the health crisis and storms Eta and Iota. At year-end, expenditure to address the coronavirus disease (COVID-19) pandemic amounted to US\$ 130.5 million, compared to US\$ 293.4 million in 2020. Of this total, 85.2% was spent on the purchase of medical supplies and equipment to strengthen health security and to set up facilities for the care of COVID-19 patients; 10.1% was invested in economic recovery programmes and 4.7% was allocated to social assistance. Expenditure to address tropical storm damage totalled US\$ 212.1 million, up from US\$ 32.8 million in 2020. Of this, 43.1% went to assist the affected population, and the remaining 56.9% was spent on recovery and rehabilitation from the damage caused. Pursuant to the exception clause of the Fiscal Responsibility Law, the non-financial public sector deficit was 5.0% of GDP, following the previous year's 7.0%.

In December 2021, the total public debt was equivalent to 54.1% of GDP, 3.6 percentage points lower than in 2020, thanks to the robust rebound in economic activity. Domestic borrowing, equivalent to 21.4% of GDP, accounted for 39.4% of this total, and the external component, equivalent to 32.7% of GDP, accounted for the remaining 60.6%. External borrowing totalled US\$ 9.250 billion, of which US\$ 1.071 billion represented new borrowing from multilateral credit organizations: US\$ 355.0 million from the International Development Association (IDA) of the World Bank, US\$ 235.1 million from the Central American Bank for Economic Integration (CABEI), US\$ 223.7 million from the Inter-American Development Bank (IDB), US\$ 124.4 million from the International Monetary Fund (IMF), US\$ 96.3 million from the Japan International Cooperation Agency (JICA), US\$ 20 million from the Organization of Petroleum Exporting Countries Fund for International Development (OFID) and US\$ 16.3 million from the International Fund for Agricultural Development (IFAD).

As of March 2022, total central government income was down by 9.2% in real terms year-on-year, as a result of a 6.8% real year-on-year reduction in tax revenues. This variation is affected by the fact that the third instalment of the income tax pertaining to fiscal year 2020 was collected in January 2021. Similarly, there was a real year-on-year reduction of 20.4% in expenditure; increased expenses on wages and salaries were offset by smaller purchases of goods and services, and mainly by a 66.1% real year-on-year reduction in capital expenditure.

As of April 2022, the balance of the public sector external debt had decreased by 1.0%, equivalent to US\$ 93.7 million, relative to its December 2021 level, thanks to an improvement in the exchange rate that reduced the balance by US\$ 82.0 million, and net amortization of US\$ 11.7 million. In March, the first principal payment of US\$ 166.7 million was made on the US\$ 500 million sovereign bond placed in March 2013, to be paid in three equal annual instalments of principal between 2022 and 2024.

(b) Monetary and exchange-rate policy

In 2021, the Central Bank of Honduras maintained an expansionary stance on monetary policy. The monetary policy interest rate was kept at 3.0%, in line with the measures implemented in 2020 to provide short-term funding and boost the credit channel. However, in response to the recovery of credit and higher inflationary pressures in late 2021, the central bank stimulated lending on longer terms and hastened the pace of absorption of excess liquidity as from the last quarter, gradually increasing the amount offered in the daily and structural auction. The monetary authority continued to support the production sectors through various guarantee fund programmes.

As of the fourth quarter of 2021, the lending interest rate was 15.34% per year (9.88% in real terms), compared to 16.79% (12.48% in real terms) in the same quarter a year earlier. The deposit rate was 2.73% (-2.13% in real terms), compared to 4.35% (0.5% in real terms) in 2020. The expansion of credit to the private sector accelerated in 2021 to an annual growth rate of 12.9%, up from 2.3% in 2020. The highest rates of credit expansion occurred in the commerce and manufacturing sectors, at 17.7% and 14.0%, respectively.

The average nominal exchange rate in the fourth quarter of 2021 was 24.32 lempiras per dollar, which represented a nominal appreciation of 0.54%, since the last quarter of 2020, equivalent to a real depreciation of 1.09%. The central bank continued to apply exchange rate flexibility measures and eliminated the foreign currency surrender requirement and the central bank public auction as a mechanism for allocating foreign currency. At year-end, the balance of net international reserves, equivalent to 7.3 months of imports, stood at US\$ 8,677.6 million, of which 28.4% corresponded to remittances and exports.

During the first eight months of 2022, the monetary policy interest rate was held at 3%. The nominal exchange rate had depreciated by a monthly average of 0.7% in August with respect to December 2021, to 24.57 lempiras per dollar. In the first quarter of 2022, the lending interest rate was 15.03% (8.01% in real terms) and the deposit rate was 2.59% (-3.67% in real terms). During the first four months of the year, credit expanded at a year-on-year rate of 16.2%, compared to 2.8% in the equivalent period of 2021. As of May 2022, net international reserves amounted to US\$ 8 billion, 2.5% less than in December 2021.

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

Goods exports totalled US\$ 10,182.3 million in 2021, representing an annual increase of 33.1%, which was largely due to a 46.8% increase in maquila exports, to meet higher demand for textile products from the United States. The value of coffee exports grew by 43.0%, boosted by the rise in prices and increased traded volume, with production 50.6% higher than in 2020. Service exports totalled US\$ 703.7 million, 2.0% higher than the previous year's total. The increase in revenues from transportation (34.3%) and travel (12.8%) was partially offset by a 14.1% drop in exports of communications services and an 11.8% reduction in exports of other business services.

Goods imports totalled US\$ 13.222 billion in 2021, up by 47.6% from 2020. Purchases of petroleum and fuels increased by 82.3%, as a result of stronger demand and higher prices for these inputs. Imports of industrial inputs increased by 44.2%, while those of consumer goods and capital goods grew by 37.0% and 62.7%, respectively. Service imports grew by 43.2% in 2021 to reach US\$ 2.589 billion. Imports

in respect of travel and transportation increased by 116.4% and 62%, respectively. The greater increase in imports of goods and services compared to the previous year was partially offset by higher exports (especially of goods for processing) and income from current transfers, mainly family remittances, which generated a balance of payments current account deficit equivalent to 3.2% of GDP.

Foreign direct investment (FDI) flows totalled US\$ 700.2 million in 2021, 67.3% more than in 2020. Reinvested profits were the main component of FDI, accounting for more than 80% of the total, and were concentrated in the services sector, especially in financial and insurance activities. In contrast, the manufacturing of goods for processing and the construction sector suffered net outflows of US\$ 17.6 million, owing to debt payments to foreign affiliates.

In 2021, family remittances amounted to US\$ 7.184 billion, US\$ 1.611 billion more than the previous year, and represented 25.4% of GDP, two percentage points more than in 2020. This growth is due mainly to the robust economic expansion in the United States and lower unemployment rates in that country.

In June 2022, goods exports totalled US\$ 3.437 billion, 29.7% more than in the year earlier period, as a result of the buoyancy of exports in manufacturing industries and agricultural activities, in particular the increase in exported volumes of bananas, melons and watermelons, products whose average international prices also rose by 18.3%.

In the first half of 2022, imports totalled US\$ 7.570 billion, representing a year-on-year growth rate of 24.7%. In addition to stronger demand, the increase in the value of imports of industrial supplies, fuels and lubricants, food and beverages, and other consumer goods was influenced by the rise in international prices, particularly in the case of oil.

(b) Economic activity

Progress in vaccination processes and the implementation and adoption of various biosafety protocols in the workplace, together with the global economic recovery, led to a sustained rebound in the Honduran economy. The monthly economic activity index (IMAE in its original series) increased at an average year-on-year rate of 15.9% in all months of the year with the exception of January and February 2021, when it contracted by 3.7% on average. In the second quarter of 2021, GDP grew at a year-on-year rate of 26.6%, while in the third and fourth quarters it expanded at rates of 13.0% and 11.4%, year-on-year, respectively.

In 2021, all economic activities posted positive growth rates, including financial intermediation services (16.7%), manufacturing (19.4%) and commerce (19.6%). However, activities related to hotels and restaurants, transportation, construction and agriculture have not yet returned to pre-pandemic levels.

Thanks to better economic conditions and higher disposable income, resulting from the partial recovery of employment and the substantial flow of remittances, private consumption increased by 15.1% in 2021, following the 6.2% contraction in 2020. Government consumption grew by 8.5% in 2021, compared to 2.9% in 2020, as a result of increased purchases of goods and services to address the health crisis and the emergency caused by tropical storms. Gross fixed capital formation grew by a remarkable 47.0% in 2021.

Between January and June 2022, the IMAE increased at an average year-on-year rate of 5.1%, compared to 13.4% in the year-earlier period. The hotels and restaurants sector expanded by 31.3% on

average, followed by financial intermediation (14.2%) and transportation (13.6%). Following the cumulative increase of 38.4% recorded in June 2021, the manufacturing sector grew by 6.8%, driven by the momentum of the textile industry and machinery and equipment manufacturing, stemming from the higher demand for clothing and harnesses in the United States market.

(c) Prices, wages and employment

For most of 2021, the monthly year-on-year variation of the consumer price index was within the target range set by the central bank. However, the recovery of aggregate demand and the rise in international commodity and fuel prices put upward pressure on the price level towards the end of the year, resulting in annual average inflation of 4.48%. Year-on-year inflation (December to December) was 5.32%. The price index for food and non-alcoholic beverages rose by 6.76%, and for clothing by 6.42%. The costs of private health services, hotels and restaurants, lodging, water, electricity, gas and other fuels increased, on average, by 4.53%.

In 2021, the national open unemployment rate was 8.6%, equivalent to 348,858 people. Unemployment was highest among the population under 25 years of age (45.7%). The unemployment rate among men was 7.0% (8.7% in the previous year), while among women it was 10.7% (13.7% in 2020). Of the total employed population in 2021 (3,722,370 people), close to two million are wage earners working in the private sector.

The minimum monthly wage in force between July and December 2021 was between 7,033.88 lempiras and 13,346.47 lempiras. In nominal terms, firms with between 1 and 50 employees raised the monthly minimum wage by 4%; those with between 51 and 150, by 5%; and those with 151 employees or more, by 8%. In firms in the agriculture and tourism sectors, the increase was 4.01%, regardless of the number of employees. In enterprises operating under the free zone law, the minimum wage was set at 8,843.37 lempiras as from 1 January 2021. The average minimum wage was 10,601.67 lempiras, which implies a nominal increase of 5.8% from its 2020 level.

In April 2022, the monthly minimum wage was set between 7,408.09 and 14,347.45 lempiras. In firms with 1 to 10 employees, the increase was 5.32%; in those with 11 to 50, 5.5%; in firms with 51 to 150, 6.5%; and in those with more than 151 employees, the increase was 7.5%. The average minimum wage, effective for 2022 and 2023, was 11,278.75 lempiras, 6.4% higher than in 2021.

Year-on-year inflation to August 2022 was 10.4%. According to the central bank, about 47% of this reflects external factors, in a context of rising international prices for raw materials, food and oil, as well as higher transportation costs. These factors were compounded by the disruption of several supply chains, in a scenario of geopolitical tensions caused by the conflict between the Russian Federation and Ukraine. In August, the prices of food and non-alcoholic beverages were up by 16.9% year-on-year, transport prices were 12.8% higher, furniture and household goods prices were up by 11.3%, and the prices of other goods had risen by an average of 6.8% year-on-year.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
	Annual growth rates b/								
Gross domestic product	2.8	3.1	3.8	3.9	4.8	3.8	2.7	-9.0	12.5
Per capita gross domestic product	0.9	1.3	2.0	2.1	3.1	2.1	1.0	-10.4	10.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.4	2.8	2.6	4.8	10.3	2.6	-1.0	-6.3	0.4
Mining and quarrying	-6.8	-8.3	-1.0	5.4	14.1	12.7	1.9	-23.5	17.3
Manufacturing	3.4	3.0	3.9	3.0	3.9	3.9	2.0	-14.0	19.4
Electricity, gas and water	-2.5	1.6	8.8	6.5	3.8	7.2	2.4	-3.9	26.6
Construction	-2.5	-9.6	2.3	6.2	8.5	1.7	0.3	-25.4	17.2
Wholesale and retail commerce, restaurants and hotels	2.1	2.1	3.1	3.2	3.6	4.4	2.9	-17.8	19.6
Transport, storage and communications	4.7	4.4	4.2	3.6	3.3	3.6	3.1	-4.5	5.9
Financial institutions, insurance, real estate and business services	4.1	6.8	7.9	5.0	4.9	4.6	7.0	-2.1	14.2
Community, social and personal services	3.2	1.5	1.6	2.6	2.7	2.6	2.5	-0.9	5.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.7	1.7	3.6	4.1	4.6	4.9	4.2	-5.0	14.1
Government consumption	3.2	-2.6	2.1	4.4	1.4	1.0	1.7	2.9	8.5
Private consumption	3.8	2.6	3.9	4.0	5.2	5.5	4.7	-6.2	15.1
Gross capital formation	-11.4	9.4	22.4	-5.2	12.6	7.9	-16.4	-25.1	49.1
Exports (goods and services)	-1.3	3.4	2.9	0.9	4.9	1.4	2.4	-20.8	21.5
Imports (goods and services)	-4.1	3.4	8.5	-1.6	7.2	4.5	-2.4	-18.5	33.0
Investment and saving c/	Percentages of GDP								
Gross capital formation	21.8	22.2	25.1	23.4	24.8	26.6	22.7	18.8	24.0
National saving	12.2	15.2	20.4	20.2	23.6	20.0	20.1	21.6	19.1
External saving	9.5	6.9	4.7	3.1	1.2	6.6	2.7	-2.8	4.9
Balance of payments	Millions of dollars								
Current account balance	-1 763	-1 372	-980	-683	-288	-1 582	-669	661	-1 385
Goods balance	-3 147	-2 968	-2 949	-2 599	-2 753	-3 818	-3 361	-2 558	-4 824
Exports, f.o.b.	7 805	8 117	8 226	7 960	8 656	8 644	8 788	7 683	10 216
Imports, f.o.b.	10 953	11 085	11 175	10 559	11 409	12 462	12 149	10 241	15 040
Services trade balance	-668	-437	-445	-578	-775	-1 062	-1 229	-1 118	-1 885
Income balance	-1 353	-1 606	-1 426	-1 508	-1 406	-1 882	-1 974	-1 646	-2 297
Net current transfers	3 405	3 638	3 841	4 003	4 646	5 180	5 894	5 983	7 621
Capital and financial balance d/	2 235	1 816	1 270	733	1 173	1 627	1 657	1 250	1 844
Net foreign direct investment	992	1 315	952	900	1 035	895	496	370	343
Other capital movements	1 244	501	319	-168	138	732	1 161	880	1 502
Overall balance	473	444	290	50	885	46	988	1 911	459
Variation in reserve assets e/	-485	-459	-303	-66	-884	-50	-993	-2 381	-587
Other financing	12	15	13	16	-1	4	5	470	128
Other external-sector indicators									
Terms of trade for goods (index: 2010=100)	96.9	100.5	106.0	106.3	106.6	100.0	98.1	102.1	100.0
Net resource transfer (millions of dollars)	894	225	-144	-759	-234	-250	-312	73	-325
Total gross external debt (millions of dollars)	6 709	7 184	7 456	7 499	8 572	9 112	9 604	10 981	11 363
Employment g/	Average annual rates								
Labour force participation rate	53.7	56.1	58.1	57.5	59.0	60.4	57.3	59.5	60.7
Open unemployment rate	3.9	5.3	7.3	7.4	6.7	5.7	5.7	10.9	8.6
Visible underemployment rate	11.7	12.5	14.1	11.5	11.8	14.2	10.6	27.3	31.3

Table 1 (concluded)

	2013	2014	2015	2016	2017	2018	2019	2020	2021 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.9	5.8	2.4	3.3	4.7	4.2	4.1	4.0	5.3
Variation in nominal exchange rate (annual average)	4.1	2.0	6.6	4.5	2.9	1.8	2.8	0.3	...
Nominal deposit rate h/	6.6	6.4	5.8	5.1	4.7	4.7	4.9	4.7	3.3
Nominal lending rate i/	20.1	20.6	20.7	19.3	19.3	17.8	17.3	17.0	16.0
Central government	Percentages of GDP								
Total revenue	17.0	18.5	19.2	20.0	20.3	20.2	19.2	16.6	19.1
Tax revenue	15.1	16.5	17.3	18.3	18.3	18.4	17.5	14.8	17.3
Total expenditure	25.0	22.9	22.1	22.8	23.0	22.3	21.6	23.6	24.1
Current expenditure	19.8	17.7	17.6	17.8	17.7	17.0	17.1	19.3	18.8
Interest	2.3	2.5	2.6	2.6	2.7	3.0	3.0	3.4	3.1
Capital expenditure	5.2	5.1	4.6	5.0	5.3	5.3	4.6	4.2	5.3
Primary balance	-5.7	-1.9	-0.4	-0.1	0.0	0.9	0.6	-3.5	-1.8
Overall balance	-8.0	-4.3	-3.0	-2.7	-2.7	-2.1	-2.5	-7.0	-5.0
Central government public debt	43.4	44.4	44.4	46.0	47.6	48.5	48.7	58.9	55.8
Domestic	15.6	16.3	15.3	18.3	17.9	19.1	19.4	25.1	26.3
External	27.8	28.1	29.1	27.7	29.7	29.4	29.3	33.8	29.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	38.4	38.6	37.1	43.7	42.0	44.0	44.5	50.2	54.2
To the public sector	2.1	2.5	1.2	4.3	2.4	1.8	1.9	5.2	7.3
To the private sector	54.7	55.1	54.6	57.5	57.6	62.7	63.9	69.8	66.7
Others	-18.4	-18.9	-18.8	-18.1	-18.0	-19.2	-20.4	-23.4	-19.9
Monetary base	10.5	11.0	10.7	13.0	12.5	12.7	13.7	22.8	19.2
Money (M1)	10.7	11.0	11.4	11.8	12.3	12.3	13.3	18.1	16.8
M2	39.2	39.4	39.3	43.1	44.5	46.0	49.0	61.9	58.8
Foreign-currency deposits	13.9	15.2	13.7	15.0	15.0	14.8	14.1	16.6	14.8

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.