HONDURAS

1. General trends

The national and international circumstances caused by coronavirus disease (COVID-19) have had severe economic repercussions for Honduras. The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that GDP will contract by 6.1% in 2020, owing to the social distancing measures and restrictions on the movement of people announced on 16 March, combined with a collapse in external demand. In May, the monthly index of economic activity (IMAE) showed a year-on-year contraction of 21.9%.

The Government of Honduras has implemented a series of economic policy measures to lessen the negative effects of health restrictions. For households, it was announced that 800,000 food parcels would be distributed while the contingency measures remained in place. For workers, a public fund was created to temporarily maintain the income of those dismissed as a result of the confinement. For companies, small and medium-sized taxpayers were offered the opportunity to defer payment of taxes until 31 August, while businesses that pay on time will receive a discount of 8.5%. The Central Bank of Honduras has also adopted measures to provide greater liquidity to the market, as detailed in the section on monetary policy. However, the pace and sustainability of the recovery will be determined by the scale of destruction of production capacity. The Honduran Council of Private Enterprise estimates that, by the beginning of May 2020, 15% of all businesses had closed down permanently.

In 2019, the Honduran economy grew by just 2.7% (3.7% in 2018), mainly owing to a contraction in public and private investment. However, household consumption remained buoyant, supported by growth in remittances and credit. The central government fiscal deficit increased by 0.4 percentage points to 2.5% of GDP, below the limit set by the Fiscal Responsibility Act. The current account deficit closed at -0.7% of GDP, down 4.7 percentage points from 2018, mainly as a result of a 4.3% drop in the value of goods imports. At year-end 2019, the consumer price index showed 4.1% growth year-on-year (compared to 4.2% in 2018), within the central bank's target range of 4.0% plus or minus a percentage point. The national open unemployment rate was 5.7% for 2019, unchanged from 2018.

2. Economic policy

(a) Fiscal policy

In the first quarter of 2020, reported revenues were 0.8% lower than in the prior-year period. Total expenditure also decreased and was down 1% compared to 2019. At the end of March 2020, total external debt had grown by 8% year-on-year, mainly owing to a disbursement by the International Monetary Fund (IMF).

Initial estimates for 2020 put total central government revenue at between 18.6% and 19.8% of GDP, while expenditures were expected to amount to between 21.3% and 22.5% of GDP. This would result in a deficit equivalent to 2.7% of GDP, 0.2 percentage points more than in 2019, but below the threshold set by the Fiscal Responsibility Act. However, as a result of the economic crisis caused by the COVID-19 pandemic, forecasts put total central government revenues at between 16% and 17% of GDP, owing to the economic contraction, while expenditures are projected at 22% to 23% of GDP, owing to one-off expenditure to address the crisis, resulting in a central government deficit of around 6% of GDP.

To meet growing financing needs, on 25 April 2020 the Central American Bank for Economic Integration (CABEI) and the Central Bank of Honduras signed an agreement to activate a US$ 200 million contingency credit line. Furthermore, on 1 June, IMF increased the limit on the other credit line previously agreed with the Government of Honduras from US$ 308 million to US$ 530 million, giving the country a total additional US$ 422 million to cover emergency needs arising from the economic repercussions of the pandemic.

In recent years, there has been a gradual and significant reduction in the central government's fiscal deficit, from 4.3% of GDP in 2014 to 2.5% in 2019. This is within the limits set by the Fiscal Responsibility Act and in line with the projections of the Medium-Term Macro Fiscal Framework. In addition, for the third consecutive year, in 2019 the country again recorded a primary surplus (0.6% of GDP, compared to 0.9% in 2018).

In 2019, total central government revenues declined at a real annual rate of 2.8% and represented 19.2% of GDP. Tax revenue fell 2.9% annually in real terms, owing to slower economic growth and the elimination of the tax on income over 10 million lempiras. Non-tax revenue also declined in real terms, by 1.4%. Total tax revenues represented 17.0% of GDP and non-tax revenue 1.0%.

In 2019, total expenditure declined at a real annual rate of 0.8% and amounted to 21.6% of GDP. This result was caused by a reduction in capital expenditure (11.7%, in real terms), partially offset by an increase in current expenditure (2.6%). Remuneration (44.7%), current transfers (24.5%) and debt service (17.8%) continued to represent large portions of current expenditure.

The total external debt balance came to US$ 9.518 billion in December 2019 (38.2% of GDP), for a nominal increase of 5.6% over year-end 2018. The domestic debt of the non-financial public sector stood at 87.039 billion lempiras in December 2019, or 14.2% of GDP. This was a 12.8% increase on the December 2018 level.

(b) Monetary and exchange-rate policy

On 10 February 2020, the monetary policy rate was cut by 25 basis points to 5.25%. On 24 March 2020, it was lowered by a further 75 basis points, to 4.50%. The monetary authorities have implemented other measures to provide liquidity to markets. The legal reserve ratio was reduced from 5% to 0% and daily currency auctions were implemented. In addition, a trust fund was established, managed by the central bank and the Honduran Bank for Production and Housing (BANHPROVI), to provide loans to the agricultural sector. In the same vein, a guarantee fund was created for new loans to support the reopening of micro-, small and medium-sized enterprises (MSMEs), whereby the government will guarantee between 65% and 90% of the amounts lent by financial institutions. Lastly, the National Commission of Banks and Insurance Companies issued a regulation to allow financial institutions to offer payment deferrals on loans to existing debtors. New lending to the private sector is therefore now forecast to grow by 4.5%, compared to the 9.5% expected at the start of the year. At 24 July 2020, the official exchange rate was 24.84 lempiras to the dollar, representing a slight nominal depreciation of 0.1% since 31 December 2019.

In 2019, monetary policy in Honduras continued to be governed by a system of specific inflation targets. On 7 January 2019, the monetary policy rate was raised by 25 basis points to 5.75%. On 23 December, it was cut by 25 basis points, closing the year at 5.50%. The average annual nominal local-currency lending rate dropped slightly from 17.8% in 2018 to 17.3% in 2019. In the same period, the annual average nominal deposit rate climbed from 4.7% to 4.9%, while the real lending rate fell from 12.9% to 12.4%, and the real deposit rate rose from 0.4% to 0.5%. Financial intermediation spreads narrowed to an average of 11.9% for the year, compared to 12.6% in 2018. Average foreign-currency lending and deposit rates stood at 6.7% and 3.6%, respectively.

At 31 December 2019, the mean of the buying and selling exchange rates was 24.72 lempiras per dollar, representing a nominal depreciation of 1.2% since the end of 2018 (appreciation of 0.1% in real terms). The central bank's net international reserves stood at US$ 5.809 billion at the end of December 2019, equivalent to 24.1% of GDP, 6.1 months of imports and 103.8% of the broad monetary base. This balance represents a 19.7% increase over year-end 2018.

Total lending to the private sector by formal sector financial intermediaries had risen by a nominal 8.5% annually at 31 December 2019 (compared to 14.9% in 2018). By destination, new loans to the manufacturing industry increased 9.1% and mortgage loans rose 6.2%. An estimated 50.3% of lending to the private sector went to households and non-profit institutions, with the other 49.7% going to businesses.

In 2019, money supply and demand deposits grew by 16.1% in value in nominal terms. This growth in the money supply, compared to 6.1% in 2018, reflected liquidity preference among economic agents. Term deposits in lempiras climbed by 14.4%, while foreign-currency term deposits rose by 5.5%.

(c) Other policies

The Agreement Establishing an Association between the United Kingdom of Great Britain and Northern Ireland and Central America was signed on 18 July 2019. The Agreement is an amended version of the one signed in Tegucigalpa on 29 June 2012, with the change that under the new agreement the United Kingdom will retain its rights and obligations once it leaves the European Union.

3. The main variables

(a) The external sector

In the first five months of 2020, total exports of goods, excluding maquila (external sales of goods for processing), increased at a year-on-year rate of 0.5%. Exports of coffee (which grew 8.8%), sugar (43.9%) and bananas (18.5%) showed the greatest growth. Total imports of final goods fell by 18.0%, mainly owing to a drop in external fuel purchases (-38.3%).

In 2020, exports and imports are expected to decline by around 20%. Maquila is forecast to contract as a result of the downturn in the United States economy. Foreign direct investment (FDI) flows will be affected and are expected to be 30% lower than in 2019.

Honduran goods exports in 2019 totalled US$ 8.643 billion, representing a 1.5% increase on the 2018 level, when there had been an 0.8% fall on the prior year. This was primarily a result of growth in exports of melons and watermelons (of 52.1% on 2018), soaps and detergents (34.1%), and sugar (21.8%), as well as of other agricultural products. International prices for coffee and bananas —the country's two main export products— were low throughout 2019, with no signs of recovery in the short term. The United States remains the top destination for exports (17.2% of the total), followed by the rest of the Central American countries (10.4%).

In 2019, imports of goods declined by 4.3% from their 2018 level to US$ 10.060 billion. The fall is the result of lower imports of inputs for agriculture (-11.5%) and industry (-7.1%), and of fuels (-2.8%). The percentage breakdown of imports was largely unchanged, with 32% for consumer goods, 50.4% for raw materials and intermediate goods, 15.3% for capital goods, and 2.4% for other products.

The trade balance for goods and services closed the year with a deficit of US$ 4.156 billion, or 16.7% of GDP, 2.5 percentage points less than in 2018. Family remittances grew by 13.1% and were equivalent to 21.5% of GDP. The growth in the volume of remittances was mainly owing to the upbeat United States economy. The terms-of-trade index for goods and services dropped by 1.8% in 2019, since prices of the agricultural commodities in the Honduran export basket fell further than fuel prices.

FDI flows amounted to US$ 498.1 million, equivalent to 2.0% of GDP and 48.2% less than FDI received in 2018, reflecting lower reinvestment of earnings.

(b) Economic activity

The monthly index of economic activity for May 2020 showed a year-on-year contraction of 21.9%, with a particularly sharp fall in the hotel and restaurant sector (-80.8%), construction (-66.5%), mining and quarrying (-57.2%), manufacturing (-43.7%) and transport (-27.8%). Tourism is among the sectors that have been most affected by confinement and restrictions on movement; the amount of foreign currency received through tourism is estimated to have fallen by up to 80% with respect to 2019. The industrial sector will also be significantly affected. The suspension of activity for 120 days in free trade zones and the disruption of flows in the global automotive value chain have had a severe impact. A gradual economic recovery is expected in the third quarter of the year, as a result of the reopening of supermarkets, pharmacies, petrol stations, hardware stores and restaurants (with takeaway services), together with a gradual reactivation of other activities. In recent years, private consumption has considerably boosted GDP growth. In 2020, this consumption will be particularly hard hit by a slump in family remittance flows, which could fall by an annual rate of around 15%, and by formal sector job losses.

The annual rate of GDP growth in 2019 was 2.7%. By expenditure component, private consumption contributed 3.1 percentage points to growth, government consumption 0.1 percentage points and net exports 3.1 percentage points, while investment subtracted 3.6 percentage points. Private consumption grew by 4.1%, a slowdown compared to 2018 (4.7%). Growth in private consumption was bolstered by a considerable flow of remittances, which grew by 13.1% year-on-year, but slackened nonetheless, dragged down by slower consumer and housing lending growth and less agricultural sector income. All components of gross fixed investment fell, mainly owing to a drop in imports of machinery and equipment and limited execution of public infrastructure projects. Compared to 2018, gross fixed investment fell by 5.4% in the public sector and by 6.0% in the private sector. Exports of goods and services grew by 2.3% in real terms, while imports fell 2.8%.

The fastest-growing sectors were finance (8.7%), real estate (3.7%) and manufacturing (2.1%). The financial sector benefited from a higher balance in the banking system’s lending portfolio, which boosted interest income, and more income from fees on credit cards and other financial services. The rise in the real estate sector was driven by preferential interest rates under a government programme. The manufacturing sector’s upbeat performance reflected increased manufacturing of textiles and clothing, owing to growth in external demand for these products.

(c) Prices, wages and employment

In June 2020, inflation came in at 2.7% year-on-year, while core inflation was 3.5%. The price trend was determined, on one hand, by a slowdown in aggregate demand and, on the other hand, by upward pressure on food prices from market closures and hoarding in response to the disruption of supply chains. Inflation is therefore expected to be below 4% in 2020 but within the central bank’s target range.

On 1 January 2020, the minimum monthly wage was set at 10,022.04 lempiras, a nominal increase of 6.1% on 2019. The overall unemployment rate is forecast to rise sharply, to around 12% for the year.

In December 2019, consumer prices showed a year-on-year increase of 4.1% (4.2% in 2018). The goods and services whose prices contributed to year-on-year inflation, in order of importance, were basic services (water, electricity and gas) (1.04 percentage points), food and beverages (1.01 percentage points) and transport (0.31 percentage points). At 3.63%, core inflation, which excludes short-term variations resulting from supply shocks, was lower than in 2018 (4.23%), reflecting a slowdown in aggregate demand.

The average monthly minimum wage in 2019 was 9,443.24 lempiras, up 6.0% in nominal terms and 3.5% in real terms on the prior year. The national unemployment rate was at 5.7% in 2019 (the same as in 2018). The unemployment rates in Tegucigalpa and San Pedro Sula —the country’s two largest cities— stood at 9.1% and 7.0%, respectively.

Table 1

HONDURAS: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	3.8	4.1	2.8	3.1	3.8	3.9	4.8	3.7	2.7
Per capita gross domestic product	1.8	2.2	0.9	1.3	2.0	2.1	3.1	2.3	3.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.5	10.7	3.4	2.8	2.6	4.8	10.3	2.7	-1.0
Mining and quarrying	-10.6	-3.2	-6.8	-8.3	-1.0	5.4	14.1	6.7	0.3
Manufacturing	4.4	1.8	3.4	3.0	3.9	3.0	3.9	3.8	2.1
Electricity, gas and water	3.6	2.9	-2.5	1.6	8.8	6.5	3.8	5.6	2.1
Construction	4.4	2.4	-2.5	-9.6	2.3	6.2	8.5	6.9	-0.4
Wholesale and retail commerce, restaurants and hotels	4.2	3.8	2.1	2.1	3.1	3.2	3.6	4.4	2.8
Transport, storage and communications	6.6	5.9	4.7	4.4	4.2	3.6	3.3	3.5	3.1
Financial institutions, insurance, real estate and business services	6.2	5.1	4.1	6.8	7.9	5.0	4.9	5.1	7.2
Community, social and personal services	0.6	2.6	3.2	1.5	1.6	2.6	2.7	2.3	2.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.8	4.0	3.7	1.7	3.6	4.1	4.3	4.0	3.6
Government consumption	-1.0	2.3	3.2	-2.6	2.1	4.4	2.2	1.2	0.6
Private consumption	3.6	4.3	3.8	2.6	3.9	4.0	4.7	4.5	4.1
Gross capital formation	24.1	-2.7	-11.4	9.4	22.4	-5.2	11.8	4.3	-15.4
Exports (goods and services)	8.4	9.8	-1.3	3.4	2.9	0.9	5.2	1.5	2.3
Imports (goods and services)	12.7	6.3	-4.1	3.4	8.5	-1.6	5.6	3.7	-2.8
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	26.0	24.6	21.8	22.2	25.1	23.4	24.8	25.9	22.3
National saving	18.0	16.0	12.2	15.2	20.4	20.2	23.6	20.0	20.9
External saving	8.0	8.5	9.5	6.9	4.7	3.1	1.2	5.9	1.4
Balance of payments	**Millions of dollars**								
Current account balance	-1 409	-1 581	-1 763	-1 372	-980	-683	-288	-1 416	-343
Goods balance	-3 149	-3 012	-3 147	-2 968	-2 949	-2 599	-2 753	-3 653	-3 107
Exports, f.o.b.	7 977	8 359	7 805	8 117	8 226	7 960	8 656	8 588	8 718
Imports, f.o.b.	11 126	11 371	10 953	11 085	11 175	10 559	11 409	12 240	11 826
Services trade balance	-423	-591	-668	-437	-445	-578	-775	-1 062	-1 228
Income balance	-974	-1 266	-1 353	-1 606	-1 426	-1 508	-1 406	-1 882	-1 901
Net current transfers	3 138	3 288	3 405	3 638	3 841	4 003	4 646	5 180	5 894
Capital and financial balance d/	1 489	1 290	2 235	1 816	1 270	733	1 173	1 462	1 331
Net foreign direct investment	1 012	851	992	1 315	952	900	1 035	895	500
Other capital movements	476	439	1 244	501	319	-168	138	567	832
Overall balance	80	-291	473	444	290	50	885	46	988
Variation in reserve assets e/	-86	283	-485	-459	-303	-66	-884	-50	-993
Other financing	6	8	12	15	13	16	-1	4	5
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	85.4	83.8	84.8	82.6	81.8	83.0	84.4	84.1	82.8
Terms of trade for goods (index: 2010=100)	104.5	101.4	95.4	98.9	104.3	104.6	105.1	98.5	98.4
Net resource transfer (millions of dollars)	521	32	894	225	-144	-759	-234	-415	-566
Total gross external debt (millions of dollars)	4 208	4 861	6 709	7 184	7 456	7 499	8 572	9 016	9 518
Employment g/	**Average annual rates**								
Labour force participation rate	51.9	50.8	53.7	56.0	58.3	57.5	59.0	60.4	57.3
Open unemployment rate	4.3	3.59	3.9	5.3	7.3	7.4	6.7	5.7	5.7
Visible underemployment rate	10.4	10.5	11.7	12.5	14.1	11.5	11.8	14.2	10.6

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	5.6	5.4	4.9	5.8	2.4	3.3	4.7	4.2	4.1
Variation in nominal exchange rate									
(annual average)	0.0	2.2	4.1	2.0	6.6	4.5	2.9	1.8	2.8
Variation in minimum real wage	-0.2	0.4	0.4	-1.1	2.1	2.7	-0.6	0.3	0.4
Nominal deposit rate h/	4.7	5.1	6.6	6.4	5.8	5.1	4.7	4.7	4.9
Nominal lending rate i/	18.6	18.4	20.1	20.6	20.7	19.3	19.3	17.8	17.3
Central government	**Percentages of GDP**								
Total revenue	17.0	16.7	17.0	18.5	19.2	20.0	20.3	20.2	19.2
Tax revenue	14.8	14.7	15.1	16.5	17.3	18.3	18.3	18.5	17.5
Total expenditure	21.6	22.7	25.0	22.9	22.1	22.8	23.0	22.4	21.6
Current expenditure	16.9	17.9	19.8	17.7	17.6	17.8	17.7	17.1	17.1
Interest	1.3	1.7	2.3	2.5	2.6	2.6	2.7	3.2	3.0
Capital expenditure	4.6	4.6	5.2	5.1	4.6	5.0	5.3	5.3	4.6
Primary balance	-3.2	-4.3	-5.7	-1.9	-0.4	-0.1	0.0	1.1	0.6
Overall balance	-4.6	-6.0	-8.0	-4.3	-3.0	-2.7	-2.7	-2.1	-2.5
Central government public debt	32.8	34.4	43.4	44.4	44.4	46.1	47.7	48.2	49.1
Domestic	15.2	14.7	15.6	16.3	15.3	18.3	18.1	18.9	19.6
External	17.7	19.7	27.8	28.1	29.1	27.8	29.6	29.3	29.5
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	35.7	38.6	38.4	38.6	37.1	42.6	41.1	44.1	44.5
To the public sector	4.1	4.1	2.1	2.5	1.2	4.3	2.4	1.8	1.9
To the private sector	47.3	51.3	54.7	55.1	54.6	57.6	57.7	62.9	63.9
Others	-15.7	-16.7	-18.4	-18.9	-18.8	-19.3	-19.0	-20.6	-21.3
Monetary base	10.2	10.0	10.5	11.0	10.7	13.0	12.5	12.7	13.7
Money (M1)	12.3	10.6	10.7	11.0	11.4	11.7	12.3	12.3	13.4
M2	39.0	37.8	39.2	39.4	39.3	42.3	43.9	45.0	48.2
Foreign-currency deposits	12.5	13.3	13.9	15.2	13.7	14.7	14.7	14.6	13.9

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

	2018				2019				2020	
	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/	2.9	4.0	3.3	4.5	3.0	1.9	3.4	2.4	-1.2	...
Gross international reserves (millions of dollars)	4 987	5 108	4 944	4 862	5 040	5 233	5 279	5 576	6 120	6 349 c/
Real effective exchange rate (index: 2005=100) d/	85.0	84.9	83.8	82.8	83.2	83.0	82.5	82.5	81.6	39.8 c/
Consumer prices (12-month percentage variation)	4.4	4.1	4.4	4.2	4.1	4.8	4.4	4.1	3.9	2.7
Average nominal exchange rate (lempiras per dollar)	23.6	23.8	24.0	24.2	24.4	24.6	24.6	24.7	24.7	24.8 e/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	4.7	4.7	4.7	4.7	4.7	4.9	4.9	5.0	4.9	...
Lending rate g/	18.1	17.9	17.6	17.6	17.4	17.3	17.3	17.3	17.4	...
Interbank rate	6.1	6.2	6.3	6.2	6.1	6.1	6.1	6.0	5.4	4.5 e/
Monetary policy rates	5.5	5.5	5.5	5.5	5.8	5.8	5.8	5.7	5.1	4.5 e/
Domestic credit (variation from same quarter of preceding year)	14.2	12.1	13.0	13.8	12.1	11.5	10.2	9.3	7.2	9.9 e/

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

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