Honduras

In 2007, the Honduran economy expanded by 6%, with per capita GDP growth of 12% over the last five years. This performance was attributable to the impact of family remittances (25% of GDP) on private consumption, as well as the private construction boom following the expansion of bank credit. Mainly as a result of supply factors, inflation increased to an annual rate of variation of 9.6% in November (compared with 5.3% at the end of 2006), which was outside the target range of 4% to 6%. The government deficit widened from 1.3% of GDP in 2006 to 2.4% in 2007. The unprecedented trade deficit of 32% of GDP, along with the income balance deficit, was only partly financed by current transfers. The balance-of-payments current account therefore posted a significant deficit that represented 7% of GDP.

For 2008, the authorities project GDP growth of 5.5% and have established a target range of 5% to 6% for inflation. February 2007 saw the conclusion of the Poverty Reduction and Growth Facility (PRGF) with IMF, although arrangements are currently under way for another such agreement.

Up to August, total real government revenues rose by 17%, thanks to increased economic activity and improved tax receipts. Real current expenditure climbed by 15%, due to wage increases. Although capital expenditure rose significantly, this did not offset the decline of the previous year in terms of GDP. For the year as a whole, the primary deficit is expected to widen considerably (to 1.6% of GDP), as is the overall central government deficit. In addition, the authorities are still faced with solving the financial management problems of State-owned enterprises in the electric power (ENEE) and telecommunications (HONDUTEL) sectors. In the period 2003-2005, the enterprise ENEE posted financial losses of US$ 120 million a year.

Public external liabilities fell by US$ 1.024 billion in 2007, largely thanks to debt forgiveness by the Inter-American Development Bank under the Multilateral Debt Relief Initiative (MDRI). In 2007, relief on the servicing of public external debt amounted to US$ 233 million, with US$ 118 million used to finance spending associated with the poverty reduction strategy. Following the amendment of the law on the poverty reduction strategy in 2004, 70% of the relief originally intended for that strategy has been mainly used to finance current expenditure.

With a view to reducing inflationary pressure, a temporary yield-bearing required reserve of 4% was established in June, in addition to the legal reserve requirement of 12%. In the second half of the year, the monetary policy interest rate was raised four times, bringing the rate up to 7.5%. In real terms, broad liquidity expanded by 9% and credit to the private sector soared by 19%. The nominal exchange rate remained unchanged, although the lempira did experience appreciation, in terms of both the real bilateral exchange rate in relation to the dollar (-3.5% on average between January and September) and the real effective exchange rate (-1.5%). Indicators of solvency, asset quality and banking system profitability improved during 2007. The proportion of non-performing loans and loans in arrears as a percentage of total credit fell from 7% in 2006 to 6% in 2007.

The most buoyant sectors in 2007 were construction and telecommunications.[1] Construction grew by 11% on the strength of the boom in private activity, mainly residential projects and buildings for agroindustrial use. Transport and telecommunications also performed well. Growth in industry (5%) was driven by the non-metals sector and cement production. The basic metal industry recorded a decline. Agriculture expanded by a mere 3%, due to climatic events such as the tropical storm Felix that struck mainly the north west of the country in September.

Inflation increased to reach a 12-month annual variation of 9.6% in November (compared with 5.3% at the end of 2006). This was mainly due to higher prices for petroleum and its derivatives, and also for maize and wheat. The situation was partly offset by the stability of the nominal exchange rate. In November, the food sector posted an annual increase of 15.9%, which had an impact on the basic basket.

Although the open urban unemployment rate fell from 4.9% in 2006 to 4.1% in May 2007, the rate of informal employment remained high due to the number of temporary and low-productivity jobs. In May, the urban underemployment rate was estimated at 25%. The average minimum daily wage rose to 101 lempiras in early 2007, with a nominal variation of 9.6%. Between January and September, the minimum wage posted an average real increase of 3%.

The growth of merchandise exports was similar to that of the previous year (9%). Up to August, traditional exports expanded by 11% on the strength of sales of coffee and banana, while non-traditional exports were less buoyant (7%). Maquila value added rose by 10%, compared with the average rate of 15% for the three-year period between 2004 and 2006. Between January and July, exports of clothes to the United States market were 8.8% higher than in the year-earlier period (following the 4% decline recorded in 2006). Sales of electrical harnesses for automobiles in the United States were up by 18%.[2] Imports, boosted by the real appreciation of the lempira, grew by 22%. Purchases of capital goods for metallurgical projects, communications and construction expanded by 35%, followed by consumer goods (25%). The oil bill represented 18% of total imports.

HONDURAS: MAIN ECONOMIC INDICATORS

	2005	2006	2007 [a]
		Annual growth rates	
Gross domestic product	4,1	6,0	6,0
Per capita gross domestic product	2,0	3,9	3,9
Consumer prices	7,7	5,3	9,6 [b]
Real minimum wage	5,8	5,1	3,1
Money (M1)	18,8	22,4	20,8 [c]
Real effective exchange rate [d]	-0,0	-1,2	-1,5 [e]
Terms of trade	0,0	-4,6	-2,8
		Annual average percentages	
Urban unemployment rate	6,5	4,9	4,1 [f]
National administration overall balance / GDP	-2,6	-1,3	-1,6
Nominal deposit rate	10,9	9,2	7,7 [g]
Nominal lending rate	18,8	17,4	16,7 [g]
		Millions of dollars	
Exports of goods and services	3 493	3 753	4 088
Imports of goods and services	5 245	6 206	7 424
Current account	-147	-355	-727
Capital and financial account	364	626	656
Overall balance	217	271	-71

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 2007.
[c] Twelve-month variation to September 2007.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October 2007.
[f] Data for the period May-July.
[g] Average from January to September, annualized.

In 2007, revenues from family remittances amounted to US$ 2.64 billion, which represented growth of 12% (compared with 35% in 2006). Determining factors in this performance included unemployment and lower wages for some Honduran emigrants working in the troubled construction industry in the United States and the recent toughening of that country's migration policy. Most of the estimated one million Honduran nationals abroad are living in the United States.

The balance-of-payments current-account deficit stood at 7% of GDP, which is the highest level since 1996, and was the net result of two opposing trends: a deficit on non-factor and factor goods and services (35% of GDP) that was partly offset by the surplus of current transfers (28% of GDP).

1 At the end of November, the central bank presented new statistics from the System of National Accounts (SNA, 1993), monetary and financial sector (IMF, *Monetary and Financial Statistics Manual*, October 2000) and the balance of payments (IMF, *Balance of Payments Manual*, fifth edition, September 1993). These statistics will be incorporated in the forthcoming *Economic Survey of Latin America and the Caribbean 2007-2008*.

2 Encased electrical wires.