# Honduras

In 2010, the Honduran economy began to recover slowly from the effects of the international financial crisis and the country's domestic political crisis in 2009. GDP growth of 2.5% in real terms is anticipated (compared with a 1.9% contraction in 2009), as consumption and investment gain strength and the recovery of main external markets (Costa Rica, Europe, Mexico and the United States) boosts exports. The central bank estimates that annual inflation will stand at about 6% at the end of December (compared with 0.9% 12 months earlier), as a result of the economic upturn and higher prices for petroleum and staple foods, especially wheat and rice. In September 2010, Honduras reached an agreement with the International Monetary Fund (IMF), which will expand access to international financial markets and help build a better business climate, thanks to recognition of the country's efforts to achieve fiscal consolidation and stabilize the economy.

In September the monthly index of economic activity showed growth of 3.2%, with a strong performance by transport and communications (8.1%), manufacturing (3.9%), and agriculture, livestock, forestry and fishing (3.2%). In the primary sector, the production of bananas, coffee and farmed shrimp expanded driven, in the latter two cases, by a strong rise in prices. In manufacturing, the highest growth was seen in textiles and clothing (maquila) and the food, beverages and tobacco sector, thanks to recovering external markets and domestic consumption.

The government approved a minimum wage increase of between 3% and 7% for companies with more than 20 workers, which came into effect on 1 September. The minimum wage for micro- and small enterprises with between 1 and 20 workers remained at 5,500 lempiras in urban areas and 4,055 lempiras in rural areas. A decree was published de-indexing the minimum wage established for the professional statutes.

At the end of June the central government deficit had increased by 5.143 billion lempiras (1.8% of GDP compared with 1% 12 months earlier) owing to a 5.5% rise in spending (thanks in particular to the wage increase granted in 2009), leaner donations from abroad and lower revenues from income tax receipts (13.5%). The wider deficit was financed by domestic market bond issues with 3.904 billion lempiras in central bank financing.

In the first half of the year, the Act for the Enhancement of Revenues, Social Equity and Rationalization of Public Expenditure was adopted with a view to correcting the fiscal imbalance. The Act considerably reformed the tax system, including significant changes to income tax. For example, it provides for the temporary solidarity contribution to be raised to 10% and then reduced annually until it is phased out completely in the 2015 fiscal year. It also reintroduces the dividend tax at a flat rate of 10%, makes changes to the sales tax and introduces a selective tax of between 10% and 60% on imports of vehicles. Lastly, it provides measures to rationalize public expenditure and improve tax collection. The authorities hope the new legislation will help to reduce the central government deficit to 4.4% of GDP by December 2010.

The deterioration of the fiscal position meant that an additional monetary policy effort was needed to maintain price stability and build up reserves. The monetary programme for 2010-2011 set an inflation target of 6% with a one-percentage-point margin on either side, which the central bank managed through open market operations. In September, with year-on-year inflation standing at

5%, the central bank opted to leave the monetary policy rate unchanged. Amid difficult fiscal conditions and the central bank's open market activities, bank interest rates remained high in real terms despite dropping slightly (to 16.17% for the lending rate and 7.91% for the deposit rate). The deterioration of the credit portfolio due to the effects of the financial crisis on the local economy pushed up banking costs, which widened the interest rate spread between January and September 2010. Still-high interest rates, lower country risk and a positive current account performance were reflected in an accumulation of US$ 90 million in reserves in 2010 and, in the context of a fixed nominal exchange rate, real appreciation of 3.3% between January and September.

Exports expanded thanks to increasing local production and the recovery of external demand, as well as the return to normality of Honduras's external relations as of the first quarter of 2010. To September, exports posted annual growth of 13% (compared with a 20.2% contraction to September 2009), which is attributable to strong growth in agricultural exports (14%), particularly coffee (23.5%) and agro-industrial products (8.8%), especially African palm oil and sugar. Manufacturing exports posted a more moderate upturn of 7% to September, driven by the recovery of maquila firms producing clothing and wiring assemblies for the automotive industry.

Imports to September 2010 also picked up strongly, rising by 13.9% after dropping by 32.7% in 2009, thanks to more buoyant economic activity. Imports of capital goods for the manufacturing industry rose by 11.3% (compared with a 50.2% drop in 2009), while imports of raw materials and intermediate goods went up by 13.9% (compared with a 29.5% fall in 2009). Imports of consumer goods edged up 4.7%. Imports of fuels, lubricants and electrical energy jumped 33.7% (after a 47.6% slump in 2009), on the strength of economic recovery, increased consumption and higher petroleum prices.

The cumulative trade deficit between January and September was US$ 3.145 billion, which was 14.6% higher than that recorded 12 months earlier. The current account deficit is expected to deteriorate significantly and close the year at 7.2% of GDP, more than double the previous year's figure of 3.2% of GDP, against the backdrop of a partial recovery of family remittances from abroad, which are projected to rally by 4% over 2009. In the first half of the year, foreign exchange inflows in the form of FDI were up by 11%.

In 2010, the country's relations with the various multilateral credit institutions regained a normal footing, enabling the resumption of external loan disbursements, which thus reached US$ 51.9 million in net terms in June. An IMF programme with resources totalling approximately US$ 202 million (which the government intends to treat as precautionary) was approved in early October, providing a macroeconomic setting which should be propitious to the restoration of stability and the strengthening of public finances.

Economic growth of close to 2% is projected for 2011, owing to a slowdown in external demand, while inflation is estimated to stand at about 6% and the current account deficit at 7% of GDP.

**HONDURAS: MAIN ECONOMIC INDICATORS**

| | 2008 | 2009 | 2010 [a] |
|---|---|---|---|
| | **Annual percentage growth rates** | | |
| Gross domestic product | 4.0 | -1.9 | 2.5 |
| Per capita gross domestic product | 1.9 | -3.8 | 0.5 |
| Consumer prices | 10.8 | 3.0 | 5.8 [b] |
| Real minimun wage | 2.8 | 0.2 | 70.4 |
| Money (M1) | 3.8 | 5.0 | 3.9 [b] |
| Real effective exchange rate [c] | -2.8 | -7.2 | -0.7 [d] |
| Terms of trade | -6.1 | 6.9 | 1.9 |
| | **Annual average percentages** | | |
| Urban unemployment rate | 4.1 | 4.9 e | 6.4 [e] |
| Central government overall balance / GDP | -2.5 | -6.2 | -4.5 |
| Nominal deposit rate | 9.5 | 10.8 | 10.2 [f] |
| Nominal lending rate | 17.9 | 19.4 | 18.9 [f] |
| | **Millions of dollars** | | |
| Exports of goods and services | 7 334 | 6 028 | 6 714 |
| Imports of goods and services | 11 696 | 8 641 | 9 548 |
| Current account | -1 800 | -449 | -815 |
| Capital and financial account [g] | 1 633 | 24 | 811 |
| Overall balance | -167 | -424 | -4 |

**Source**: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2010.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Year-on-year variation, January to October average.
[e] Figure for May.
[f] Average from January to September, annualized.
[g] Includes errors and omissions.