Honduras

1. General trends

The Honduran economy grew by 4.0% in 2008, 2.3 percentage points below the 2007 figure. Growth varied significantly by sector. The most buoyant sectors were financial intermediation (18.1%) and communications (14%). Year-on-year inflation stood at 10.8%, driven mainly by rising international prices for food and petroleum.

The open unemployment rate dropped from 3.1% in May 2007 to 3.0% in May 2008, while the nationwide underemployment rate remained high at 28%. At the end of 2008 the central government showed a deficit equivalent to 2.3% of GDP, which was 0.6 percentage points smaller than in 2007. The current account deficit jumped to 13.8% of GDP, surpassing the previous year's figure by 3.5 percentage points. This result reflects the economy's vulnerability to external shocks.

Overall, the economic context during the first seven months of 2008 was characterized by rising food and fuel prices, which translated into inflationary pressure and an expansion of imports. The impact of the international financial crisis in the second semester was reflected in a downturn in exports and a slowdown in family remittances, with negative repercussions on private consumption.

According to ECLAC projections, real GDP will contract by 2.5% in 2009, owing to slowing imports, declining flows of foreign direct investment (FDI) and remittances and the deterioration of employment. As a result, poverty is expected to increase. Given the sharp drop in imports, the balance-of-payments current account deficit is expected to shrink considerably.

Presidential elections are due to be held in Honduras in November 2009.

2. Economic policy

In 2008 and up to April 2009, economic policy in Honduras was conducted within the framework of the stand-by agreement signed with the International Monetary Fund (IMF), which seeks to maintain the conditions necessary for sustained growth and reduce poverty by consolidating macroeconomic stability.

In the 2008 budget, the target for the combined public sector deficit was set at 1.5% of GDP. A ceiling of 6.5% of GDP was placed on public investment spending and a floor of 7% of GDP was set for spending on anti-poverty programmes. A further goal was established to reduce the current account deficit to 6% of GDP in the medium term. Meeting these goals, however, has been no simple matter given the impact of the international financial crisis and the resulting global slowdown, combined with rising international food and fuel prices.

(a) Fiscal policy

The central-government fiscal deficit dropped to 2.3% of GDP in 2008, compared with 2.9% in 2007. This positive result can be partially attributed to total revenues

(19.3% of GDP), which rose at a slightly faster pace than total expenditures (21.7% of GDP).

Central government real total expenditure rose by 2.3%, which was considerably less than the figure for 2007 (21.6%). The increase was mainly a reflection of higher wages negotiated with a number of trade unions (teachers, doctors and nurses), and payroll spending expanded by US$ 159.8 million. Those wage hikes were smaller than those observed the previous year, however.

Total central government revenues increased by 5.1% in real terms, which partially reflected the effects of new legislation on tax evasion in 2008 and improvements in tax collection. Nonetheless, tax revenues fell 1.2% in real terms given the slowdown in economic activity which translated into smaller corporate profits.

At the end of 2008 external debt had risen by US$ 300 million and surpassed the figure for 2007, owing to higher outlays by multilateral lenders. This increase was offset by US$ 485 million in principal payments and an adjustment for exchange-rate fluctuations.

Since May 2009, the government has been in talks with IMF to renegotiate the stand-by agreement which expired in April. These negotiations are taking place without congress having approved the 2009 budget and the government is currently operating under the 2008 budget.

The fiscal situation is likely to deteriorate as a result of falling revenues in 2009 and increasing government commitments to address the financial crisis. Tax receipts for 2009 will be hurt by the economic slowdown, along with decreasing tariff revenues from slackening trade and commitments to reduce tariffs under the Dominican Republic-Central America - United States Free Trade Agreement (CAFTA-DR). Lastly, the fact that Honduras has an existing agreement with IMF could hamper its ability to access external financing to address the financial crisis and the adverse effects of the global economic slowdown.

(b) Monetary and exchange-rate policy

Monetary policy was steered in response to two distinct periods in 2008: the first characterized by rising food and fuel prices and the second marked by the global economic slowdown. In order to mitigate the inflationary pressures associated with rising international prices, the Central Bank of Honduras raised the monetary policy rate from 7.5% to 9.0% in the first seven months of 2008.

The central bank also increased the mandatory investment rate for institutions in the financial system from 4% to 9% in 2008. National banks could comply with this requirement in two ways: (a) up to five percentage points through holdings of Honduran government bonds for fiscal year 2008; and (b) up to two percentage points in new local-currency lending to basic grain producers and other strategic production sectors (agriculture, exports, maquila, housing construction and small and medium-sized enterprises).

A differentiated reserve requirement was also implemented for deposit liabilities in local and foreign currency. All deposit liabilities in local and foreign currency —except interbank operations and external debt— were made subject to a non-yield-bearing reserve requirement of 12%. Foreign-currency deposits were subject to an additional 24% reserve requirement that financial institutions must hold as investments in first-tier foreign banks.

At the same time, the legal reserve requirement to back loans for production activities in targeted sectors was cut to 0% for banks that reduced their consumer and commercial lending to under 80% of their total portfolio.

M1 expanded by only 1.8%, compared with 16.3% in 2007. Cash outside banks diminished, while deposits in checking accounts were up slightly. Local-currency liquidity (M2) recorded an increase of 2.5%, while broad liquidity (M3) was up by 4.9%. Foreign-currency deposits expanded by 10.1%, reflecting the substitution of local for foreign currency.

In order to maintain liquidity in the financial system and given the global economic crisis, in December 2008 the central bank shifted the focus of monetary policy and lowered the monetary policy rate to 7.75%. The rate was then reduced three more times in 2009 to stimulate lending to production activities and create jobs, taking it to 4.5% by April. On 26 March 2009 the central bank approved the 2009-2010 monetary programme, which sets forth the bank's strategy and policy measures and sets the inflation target for the year at 9% with a margin of one percentage point on either side.

Although Honduras has a flexible exchange rate regime, the exchange rate has been held steady since mid-2005 as an anchor against imported inflation. In 2008, the real bilateral exchange rate against the dollar rose by 6.8%, while the real effective exchange rate (with all the country's trading partners) was up by 3.9%. The external accounts have deteriorated, which could lead to a decrease in the nominal exchange rate.

(c) Trade policy

Trade policy in 2008 was focused on harnessing the benefits of CAFTA-DR, which came into force in 2006, offering Central American and Dominican exports preferential access to United States markets. This objective will remain in 2009. Another aim of trade policy will be the ongoing negotiations with the European Union, which should conclude in 2009, as well as the satisfactory resolution of disputes over bananas and coffee.

(d) Other policies

Measures were taken in January 2009 to help channel funds into the country's main production activities in order to increase credit for strategic sectors. The government announced the creation of a trust guaranteed by the Central Bank of Honduras and the Honduran Bank for Production and Housing in the amount of 10 billion lempiras (US$ 530 million). These funds will be channelled through private banks. Under this initiative, the construction, agriculture and maquila sectors will have access to seven-year loans at nominal annual rates of 10%, with a lower rate of 7% for micro-enterprises. Of the 10 billion lempiras, 40% are earmarked for construction, 20% for micro-enterprises and small firms and the rest for other activities. These funds are in addition to the 8.2 billion lempiras approved in 2008 for the reduction and elimination of the legal reserve requirement in lempiras and foreign currency.

In April 2009 the government announced a plan to address the effects of the global economic and financial crisis, building on and improving some existing measures and incorporating new initiatives. The abovementioned trust was created as an important means of channelling soft loans to production sectors. The government also identified the need to loosen loan requirements so private banks could make 22 billion lempiras available to the production sectors and, to that end, offered to share credit risk with the banking system and help banks to renegotiate overdue agricultural loans. The plan highlights the need to broaden credit to social sectors, aiming to provide some 3 billion lempiras in financial support for subsidized housing, micro-enterprises and SMEs and the agricultural sector. The plan also seeks to strengthen the financial system by guaranteeing an as yet undisclosed amount of savings deposits. This is expected to be achieved by capitalizing the Deposit Insurance Fund (FOSEDE) and creating a special fund to protect the financial system. There are additional plans to create a line of credit worth 900 million lempiras which would be used to make timely payments for public works and public services. Another 800 million lempiras will be allocated to vouchers to pay agricultural arrears and certification of urban plots.

Lastly, steps will be taken to expand transfers to vulnerable sectors through existing social protection networks and to increase public investment in road and energy infrastructure. The number of families receiving transfers will increase from 150,000 to 220,000, focusing on the poorest areas.

By mid-2009, however, only a fraction of the announced funds had been disbursed, owing partly to delays inherent in investment viability studies, which hamper the rapid extension of loans to the earmarked sectors.

3. The main variables

(a) Economic activity

In 2008 the Honduran economy grew by 4.0% in real terms, while per capita GDP increased by a mere 1.9%. Aggregate demand was up by 6.1% (8.7% in 2007) and private consumption and gross investment expanded by 7.1% and 13.6%, respectively. GDP growth also reflected a slowdown in gross fixed capital formation, which grew by 12.2%, or 7.2 percentage points less than in 2007. This translated into a slower growth rate for imports of machinery and equipment. Nevertheless, imports climbed by 8.8% and surpassed exports (2.6%), so that the external sector made a negative contribution to GDP growth.

Agriculture expanded by 3.4% and lost the buoyancy it had shown in recent years, mainly owing to smaller crop framing output. Manufacturing and construction also experienced slower growth than in 2007 (3.8% and 6.3%, respectively). The transport, storage and communications sector recorded double-digit expansion (10.9%) for the fifth straight year. Performance in other services (7.4%) was led by rapid growth in financial services (12.5%).

In 2009 the Honduran economy has suffered the effects of the international financial crisis. In the first semester the monthly index of economic activity recorded a contraction of 1%. The sectors with the largest downturns were commerce (-0.7%), transport and communications (-4.5%), banking and insurance (-11.0%) and construction (-18.3%).

(b) Prices, wages and employment

In 2008 the annual inflation rate ended the year at 10.8% driven mainly by rising food and fuel prices. Food and non-alcoholic beverages contributed 5.4 percentage points to the rise in prices, followed by housing, water,

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Annual growth rates [b]								
Gross domestic product	5.7	2.7	3.8	4.5	6.2	6.1	6.6	6.3	4.0
Per capita gross domestic product	3.6	0.6	1.7	2.5	4.1	3.9	4.5	4.2	1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.7	2.1	4.5	2.3	7.2	-2.3	7.6	5.7	3.4
Mining and quarrying	1.7	34.5	-5.8	8.5	-5.6	-0.6	-3.6	4.4	5.1
Manufacturing	5.5	3.8	7.8	6.4	4.0	7.0	4.3	4.3	3.8
Electricity, gas and water	10.6	-14.0	-13.6	-20.6	6.2	52.4	22.6	5.8	5.5
Construction	1.5	-7.8	-11.5	3.8	1.2	-2.3	9.4	9.7	6.3
Wholesale and retail commerce, restaurants and hotels	3.7	1.2	3.3	2.1	4.2	5.4	5.5	5.8	4.8
Transport, storage and communications	5.0	2.9	2.4	11.5	13.5	16.6	11.7	11.6	10.9
Financial institutions, insurance, real estate and business services	2.6	9.7	9.7	8.6	12.4	12.3	15.1	11.3	12.5
Community, social and personal services	10.5	5.4	5.4	4.0	5.8	5.4	6.0	8.4	3.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	7.9	4.8	4.0	4.3	5.0	6.8	8.0	9.6	5.9
Government consumption	15.7	6.4	3.1	3.7	5.4	10.1	1.6	18.0	-0.5
Private consumption	6.8	4.5	4.2	4.4	5.0	6.1	9.2	8.1	7.1
Gross domestic investment	-2.8	-3.9	-4.6	4.9	21.9	-1.2	7.2	18.8	13.6
Exports (goods and services)	7.3	4.0	10.0	8.7	13.2	5.3	1.6	3.0	2.6
Imports (goods and services)	3.8	3.6	5.9	7.9	16.2	3.6	4.0	11.9	8.8
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	28.3	26.0	24.3	25.3	29.7	27.6	28.3	33.4	34.7
National saving	21.2	19.7	20.7	18.6	22.0	24.6	24.6	23.1	20.9
External saving	7.1	6.3	3.6	6.7	7.6	3.0	3.7	10.3	13.8
	Millions of dollars								
Balance of payments									
Current account balance	-508	-479	-282	-553	-678	-290	-404	-1 275	-1 977
Goods balance	-644	-729	-637	-1 020	-1 293	-1 497	-2 027	-3 178	-4 343
Exports, f.o.b.	3 343	3 423	3 745	3 754	4 534	5 048	5 277	5 642	6 046
Imports, f.o.b.	3 988	4 152	4 382	4 774	5 827	6 545	7 303	8 820	10 389
Services trade balance	-187	-207	-190	-162	-204	-229	-291	-349	-305
Income balance	-215	-258	-301	-362	-446	-460	-537	-400	-350
Net current transfers	538	715	846	991	1 265	1 895	2 450	2 652	3 021
Capital and financial balance [d]	380	419	272	358	1 040	477	687	1 090	1 912
Net foreign direct investment	375	301	269	391	553	599	669	928	875
Other capital movements	5	117	3	-32	487	-122	19	162	1 036
Overall balance	-128	-60	-10	-194	362	187	283	-185	-65
Variation in reserve assets [e]	-55	-101	-106	97	-510	-346	-282	109	42
Other financing	183	161	115	98	149	159	-1	76	23
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	97.1	96.9	98.5	100.9	100.6	98.0	97.8	94.4
Terms of trade for goods (index: 2000=100)	100.0	94.8	92.0	88.0	87.2	87.2	83.2	81.6	80.9
Net resource transfer (millions of dollars)	348	322	86	94	743	177	149	766	1584
Gross external debt (millions of dollars)	4 711	4 757	4 922	5 242	5 912	5 093	3 879	3 028	3 321
	Average annual rates								
Employment									
Labour force participation rate [g]	...	52.5	51.7	50.0	50.6	50.9	50.7	50.7	51.0
Open unemployment rate [h]	...	5.9	6.1	7.6	8.0	6.5	4.9	4.0	4.1
Visible underemployment rate [h]	...	3.8	4.7	5.9	6.5	6.9	5.4	4.3	3.5
Prices	Annual percentages								
Variation in consumer prices (December-December)	10.1	8.8	8.1	6.8	9.2	7.7	5.3	8.9	10.8
Variation in nominal exchange rate (annual average)	4.4	4.3	6.2	5.5	5.0	3.4	0.4	0.0	0.0
Variation in real minimum wage	3.1	2.5	2.1	8.6	0.8	5.8	5.1	2.8	0.2
Nominal deposit rate [i]	15.9	14.5	13.7	11.5	11.1	10.9	9.3	7.8	9.5
Nominal lending rate [j]	26.8	23.8	22.7	20.8	19.9	18.8	17.4	16.6	17.9

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income [k]	15.7	16.7	16.4	16.5	17.2	17.6	18.1	19.1	19.3
Current income	14.9	15.2	15.3	15.6	16.4	16.4	16.6	17.5	17.2
Tax income	13.7	13.6	13.3	13.7	14.5	14.5	15.2	16.3	15.6
Total expenditure [l]	20.4	21.1	20.3	21.3	19.8	19.8	19.2	21.9	21.7
Current expenditure	14.6	14.7	15.2	16.2	14.8	15.3	16.0	17.9	17.1
Interest [m]	2.2	1.0	1.0	1.0	1.1	1.1	1.0	0.6	0.6
Capital expenditure [l]	5.5	5.7	4.2	4.6	5.0	4.5	3.3	4.1	4.7
Primary balance	-2.5	-3.4	-2.9	-3.7	-1.5	-1.1	-0.1	-2.3	-1.7
Overall balance	-4.7	-4.4	-3.9	-4.7	-2.6	-2.2	-1.1	-2.9	-2.3
Central government debt	55.6	53.9	55.5	60.7	59.6	44.7	28.7	17.3	19.4
Domestic	3.6	3.8	3.9	6.3	4.6	3.8	3.3	2.8	4.7
External	52.0	50.1	51.6	54.4	55.0	40.9	25.4	14.5	14.7
Money and credit [n]									
Domestic credit [o]	...	25.3	23.7	26.7	24.0	23.7	27.2	34.0	32.2
To the public sector	...	-1.9	-2.3	0.4	-1.0	-0.9	-2.6	-2.1	-1.2
To the private sector	...	36.7	36.1	37.7	38.5	39.7	45.2	52.7	50.9
Others	...	-9.4	-10.1	-11.4	-13.6	-15.0	-15.4	-16.6	-17.6
Liquidity (M3)	...	...	46.5	47.2	49.2	50.8	55.0	56.5	51.4
Currency outside banks and local-currency deposits (M2)	...	...	34.0	34.5	35.4	37.3	41.3	42.5	37.8
Foreign-currency deposits	...	...	12.6	12.7	13.8	13.5	13.8	14.0	13.3

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 figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; nationwide total.
[i] Weighted average rate on time deposits.
[j] Weighted average rate on loans.
[k] Includes grants and recovery of interest.
[l] Includes net lending.
[m] Central bank data include accrued interest on the public debt.
[n] The monetary figures are end-of-year stocks.
[o] Includes securities issued for monetary regulation and short- and long-term external loans.

electricity, gas and other fuels which together added 1.8 percentage points to the inflation rate.

Inflation peaked at 14% in August, making it impossible to meet the inflationary target set under the monetary programme. This trend was reversed, however, in the last four months of 2008, thanks to falling prices for fuels and some foods. Rising international prices contributed to domestic inflation, in particular prices for electric power and some prepared foods such as rice, pasteurized and powdered milk, chicken and carbonated beverages. The only consumer price category to record a year-on-year drop in prices was communications, reflecting greater competition in that sector.

Despite moderate economic growth, the national employment rate continued the upward trend observed in recent years. Since the participation rate also rose, the national unemployment rate held steady at 3.0% (4.1% in urban areas). As a result of the crisis, however, the unemployment rate —and probably the underemployment rate too— has risen. Some 39,000 jobs are estimated to have been lost since October 2008, owing to slackening external demand for textiles and clothing, harnesses for the automobile industry and other outputs of the Honduran maquila industry. Construction has also lost approximately 40,000 jobs.

In January 2008 the minimum wage rose by 13.3%, reaching a monthly average of 3,428.5 lempiras (US$ 181.40). An additional increase in the minimum wage was announced in December to help address the financial crisis and the effects of the global economic slowdown and the monthly wage was set at 5,500 lempiras in urban areas and 4,055 lempiras in rural areas. It was agreed at talks held in January 2009 that this wage rise would not apply to the maquila industry as long as layoffs were still occurring.

(c) The external sector

External conditions deteriorated in 2008 owing, in part, to high prices for imported goods and slower

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars) [b]	549	606	601	511	769	785	617	478	652	...
Goods imports, c.i.f. (millions of dollars)	1 531	1 674	1 847	1 931	1 988	2 374	2 435	2 034	1 584	...
Gross international reserves (millions of dollars)	2 827	2 900	2 742	2 733	2 736	2 780	2 590	2 690	2 784	2 804 [c]
Real effective exchange rate (index: 2000=100) [d]	97.7	98.2	97.6	97.2	97.6	97.4	94.1	88.4	86.5	87.3 [e]
Consumer prices (12-month percentage variation)	6.3	6.2	7.1	8.9	9.2	12.2	13.7	10.8	8.8	5.4
Average nominal exchange rate (lempiras per dollar)	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9
Nominal interest rates (annualized percentages)										
Deposit rate [f]	7.8	7.6	7.7	8.0	8.3	8.8	9.6	11.2	12.1	10.9 [e]
Lending rate [g]	17.0	16.7	16.3	16.4	16.6	17.1	18.4	19.7	19.9	19.9 [e]
Interbank interest rate	5.3	5.5	6.4	7.3	8.0	8.4	9.8	10.1	7.2	5.6
Domestic credit (variation from same quarter of preceding year)	37.7	41.7	49.1	41.9	30.6	29.6	21.6	9.2	4.9	...
Non-performing loans as a percentage of total credit	4.1	4.1	4.0	3.2	3.7	3.8	4.4	4.6	5.8	6.8 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Does not include maquila activities.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] Weighted average rate on time deposits.
[g] Weighted average rate on loans.

growth in the value of exports, which came to only 7.2%. This performance may be attributed to a combination of opposing trends, since traditional exports recorded growth of 18.1% (slightly higher than in 2007), while value added rose by 3.8% in the maquila sector and 7.3% in non-traditional exports.

The total value of imports (not including maquila) was US$ 10.389 billion, which represents an increase of 17.8%. This can be attributed chiefly to imports of fuel, lubricants and electric power which totalled US$ 1,952,800,000, a 49.7% increase. Other imports expanded by only 16% in 2008, as compared with 30% growth recorded the year before.

Capital goods imports were up by 10.2%, considerably less than the 42.1% jump recorded in 2007. Consequently, the current account deficit swelled to US$ 1.977 billion, equivalent to 13.9% of GDP and 3.6 percentage points larger than the 2007 deficit. The terms of trade worsened again (-0.9%).

The United States continues to be the largest market for Honduran exports and receives 40.5% of total exports by volume, followed by Central America (23.4%) and Europe (20.0%). This dependence on United States and European markets implies that the volume of Honduran exports will likely slip in 2009, given the global economic slowdown.

Net income from current transfers posted a surplus of US$ 3.021 billion and grew by 13.9%, or 5.7 percentage points more than in 2007. Remittances made up 93% of such transfers and amounted to US$ 2.801 billion in 2008. As a proportion of GDP, however, remittances stood at 19.6%, one percentage point less than in 2007.

The financial account closed the year at US$ 1,632,100,000, partially owing to an inflow of US$ 877 million in FDI. International reserves stood at US$ 2.46 billion, reflecting the loss of US$ 54 million in 2008. These reserves cover approximately 3.4 months of goods and services imports.