Honduras

Economic growth accelerated to 5.6% in 2006 —its highest rate since 2000. This performance reflected strong domestic demand fuelled by an increase in family remittances (26% of GDP). Per capita GDP grew for the third year running, while the open urban unemployment rate fell to 5.2% and annual inflation to October dropped to 4.5%. External deficits on the trade account (25.5% of GDP) and in factor payments were comfortably financed, so international reserves continued to expand. Projections for 2007 see GDP growth of around 5% and inflation in a range of 5.5%-6.5%. A new programme is being arranged with the International Monetary Fund through the Policy Support Instrument (PSI), the aim of which is to coordinate macroeconomic and social policies, with an emphasis on poverty reduction.[1]

The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) entered into force in a generally favourable macroeconomic climate, and relief on public external debt service began. Nonetheless, the oil bill continued to expand as a result of high oil prices.

In January, Manuel Zelaya took office as President; and in November, the Public Information Transparency and Access Act was passed to improve the workings of public governance.

The government deficit calculated on an accruals basis dropped to 1.0% of GDP from 2.7% in 2005, as a result of higher revenue and a lower level of public investment. Despite the tariff cuts mandated by CAFTA-DR, total income grew by 5.5% in real terms, thanks to increased income-tax receipts, larger revenues from sales taxes generated by more vigorous commercial activity, and an increase in grants. Current expenditure grew by 4.5% in real terms, partly reflecting the teachers' pay award, which will have a greater effect on fiscal accounts in 2007, and the temporary fuel subsidy which amounted to US$ 20 million. In contrast, real capital expenditure declined sharply (25%), given the low rate of execution on investment projects caused by implementation difficulties that are usual in the first year of a government, and problems in the disbursement of external loans. In the case of public enterprises, steps were taken to overcome management problems and address the reduction of capital investments by State-owned enterprises in the electric power (ENEE) and telecommunications (HONDUTEL) sectors.

The external public debt fell to US$ 3.066 billion from its late-2005 level of US$ 4.364 billion —a trend that mainly reflects debt cancellation granted by the World Bank and the IMF under the Multilateral Debt Relief Initiative (MDRI), and to a lesser extent by the Paris Club. As of June, the total relief on external public debt service amounted to US$ 111.6 million, of which US$ 73.6 million will be used to finance expenditure in the poverty reduction strategy.

Within the monetary programme, the central bank set an inflation target for 2006 in a range between 5.5% and 6.5%. The downward trend of inflation allowed the monetary authorities to lower the monetary policy interest rate from 7% at the start of the year to 6% in November. Nonetheless, average lending rates up to November

[1] In order to guarantee the external debt forgiveness already approved, the Government would have to make certain commitments and use the corresponding funds to reduce poverty by 24 percentage points within 15 years, within the framework of the poverty reduction strategy.

fluctuated around 11% in real terms while real deposit rates approached 1.5%.

The accumulation of international reserve assets resulted in a higher level of open-market operations to sterilize monetization. As of September, an additional 4.084 billion lempiras in Monetary Absorption Certificates (CAM) had been issued; nonetheless, despite these measures taken by the authorities, money creation was up by 12.4% in real terms, and lending to the private sector had grown by 18.8%. Given the stability of the nominal exchange rate and reduction in domestic inflation, the lempira had appreciated by 2% in real terms to September.

The expansionary output cycle that had begun in 2004 intensified, with GDP growing by 5.6% and per capita GDP expanding by 3.1%. Growth was once again driven by domestic demand, particularly private consumption fuelled by family remittances. Gross fixed capital formation increased by 5.5% thanks to private investment, particularly in machinery and equipment; in contrast, public investment was sharply lower. The fastest growing sectors were agriculture (9%), followed by manufacturing industry, construction and financial services.

The year-on-year variation in consumer prices to November was 4.9%, the smallest increase since 1988. This achievement was assisted by maintenance of the nominal exchange rate, stable basic grain prices and the fuel subsidy in the first half of the year. In addition, the Government launched an international tender process for the purchase of petroleum products in an attempt to reduce the fuel prices paid by consumers.

Although the urban unemployment rate fell to 5.2%, underemployment remained very high, at around 30%. The minimum wage grew by 5% in real terms.

The balance-of-payments current account deficit narrowed to 0.2% of GDP (0.8% in 2005), reflecting two opposing movements: a deficit on goods and non-factor and factor services (29% of GDP) and a surplus on current transfers, mainly family remittances, which offset that deficit almost entirely. Export growth (11%) was similar to the previous year, but imports expanded by 20%. Traditional exports grew by 11% driven by the coffee sector (entirely due to volume increases), lower banana shipments (down by 5%) were offset by better prices. Non-traditional exports grew by 10% as a result of larger shipments of shrimps, melon and, above all, pineapples. Meanwhile, maquila value added rose by 12%.

Imports of raw materials, intermediate products and capital goods increased rapidly (25%), whereas the growth of consumer goods imports moderated to 6%. The first of these categories was affected by the oil bill (24% of total imports), whereas capital goods imports were boosted by a boom in machinery and equipment purchases for industry.

Foreign direct investment amounted to US$ 300 million, broadly in line with the previous year's figure, and was mainly channelled into the communications and transport sectors and maquila enterprises. There was a net outflow of other capital, so the financial account registered a surplus of US$ 232 million. Reserve assets grew by US$ 430 million.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2004	2005	2006 [a]
	Annual growth rates		
Gross domestic product	5.0	4.1	5.6
Consumer prices	9.2	7.7	4.9 [b]
Real minimum wage	0.8	5.8	5.2
Money (M1)	15.2	18.8	22.8 [c]
Real effective exchange rate [d]	1.7	0.0	-1.4 [e]
Terms of trade	-0.9	0.0	-3.7
	Annual average percentages		
Urban unemployment rate	8.0	6.5	5.2 [f]
Central government overall balance/GDP	-3.1	-2.6	-1.0
Nominal deposit rate	11.1	10.9	9.7 [g]
Nominal lending rate	19.9	18.8	17.7 [g]
	Millions of dollars		
Exports of goods and services	3 112	3 427	3 751
Imports of goods and services	4 546	5 165	6 110
Current account	-404	-67	-22
Capital and financial account	777	286	231
Overall balance	373	219	210

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 2006.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Data refer to May.
[g] Average from January to September, annualized.