

HONDURAS

1. General trends

The GDP of Honduras grew by 4.0% in 2022, following a 12.5% expansion in the previous year. The slowdown is explained mainly by the dissipation of the statistical effect of a low comparison base, resulting from the sharp contraction registered in 2020. Growth was driven by household and business consumption, supported by remittances and the greater availability of bank credit; stronger external demand, owing mainly to the expansion of the economy of the United States, the country's main trading partner; and increased private investment.

The central government fiscal deficit represented 1.3% of GDP, 3.7 percentage points less than in 2021. This reduction is the result of higher tax revenue, thanks to the buoyancy of economic activity, but also tighter expenditure control and a low rate of execution of public investment programmes and projects, owing to the government's administrative reorganization. The current account recorded a deficit equivalent to 3.4% of GDP (5.3% in 2021), as a result of increased imports of goods and services fuelled by stronger domestic demand and higher raw material and fuel prices, which were mitigated by an increased flow of family remittances and higher exports. Inflation ended 2022 at 9.8%, above the central bank's target range of $4\% \pm 1$ percentage point. The rise in the price level was influenced by external factors, such as higher international prices resulting from the conflict between the Russian Federation and Ukraine. In this context, the central bank estimates that 50% of domestic year-on-year inflation was imported. The national open unemployment rate averaged 8.9% for the year, up from 8.6% in 2021.

On 27 January 2022, Xiomara Castro, of the Libertad y Refundación (Libre) Party, took office as the country's president. The first measures introduced by the new government included a declaration of a state of fiscal and financial emergency in the public sector and authorization for the Ministry of Finance to contract loans for up to US\$ 2 billion, if necessary. In addition, the 2022 income and expenditure budget was amended to provide more fiscal space to accommodate the various social and public investment programmes envisaged in the government's plan. The exception clause contained in the rules of the Fiscal Responsibility Act was altered to raise the deficit ceiling for the non-financial public sector from 1% to 4.9% in 2022 and to 4.4% in 2023, with a view to then lowering it by 0.5 percentage points each year, until it reaches the 1.0% Fiscal Responsibility Act target. It was also decided that the annual increase in nominal central government spending should be capped at 9.5% in 2022 and 8.5% in 2023. These measures were accompanied by the adoption of the energy subsidy for over 1 million families living in poverty and consuming less than 150 kilowatts per month, together with a reduction in gasoline prices, and the repeal of the Employment and Economic Development Zones Organic Act.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects Honduran GDP to grow by 3.4% in 2023, owing to consumption driven by expected wage increases this year, larger remittance inflows and credit growth, together with higher levels of public investment. Nonetheless, growth will be lower than in 2022, because economic activity is likely to face less favourable external conditions, including a significant slowdown in the economy of the United States, its main trading partner. The central government fiscal deficit is forecast to be around 4% of GDP, while the current account deficit will close out 2023 at around 3.8% of GDP. Inflation will be between 6.0% and 7.0%, benefiting from lower prices for fuels, raw materials and agricultural inputs. In a context of economic slowdown, unemployment is expected to be around 9%. For 2024, ECLAC forecasts GDP growth of 2.6%.

2. Economic policy

(a) Fiscal policy

In 2022, the central government's current income grew by 7.7% in real terms year-on-year, owing to increases of 6.4% in tax revenues and 25.2% in non-tax income. The growth in tax revenues, which accounts for 87.7% of total income, reflects increased revenue from income and sales taxes, driven mainly by stronger economic activity.

Total central government expenditure contracted by 9.5% in real terms year-on-year, with capital expenditure declining by 38.8%, owing to low rates of execution of public investment programmes and projects. Meanwhile, current spending contracted by 1.3%. The reduction in personnel expenses and spending on goods and services was mitigated by higher current transfers. The contraction in public spending in 2022 resulted from the closing of institutions to eliminate the duplication of functions, the reorganization of executing units, a delay in the disbursement and execution of resources, and the non-ratification of certain contracts for the supply of goods, the provision of services and the execution of public works.

In December 2022, the total public debt represented 51.9% of GDP, which was 2.2 percentage points lower than a year earlier. Domestic debt accounted for 41.7% of this total, with external debt accounting for the remaining 58.3%. The latter amounted to US\$ 9.540 billion, of which US\$ 1.309 billion corresponds to new debt acquired with multilateral lending institutions. Of this, US\$ 613.0 million is with the Inter-American Development Bank (IDB), US\$ 450.0 million with the Central American Bank for Economic Integration (CABEI), US\$ 210.0 million with the International Development Association (IDA) of the World Bank, and US\$ 36.0 million with Spain's Official Credit Institute (ICO).

In March 2023, central government current income was 6.2% higher than a year earlier in real terms, with tax revenue up by a modest 0.2% year-on-year, owing to a slowdown in the country's economic activity. Expenditure was 28.3% higher than a year earlier, mainly because of a real 136.3% year-on-year increase in capital spending.

Public sector external debt stood at US\$ 68.9 million in March 2023, 0.7% lower than in December 2020, owing to net amortization of US\$ 85.4 million, offset by an unfavourable exchange-rate variation, which reduced the balance by US\$ 16.5 million.

In March 2023, the government submitted the Tax Justice Bill to the National Congress. This legislation seeks to make the tax system progressive and rule out the possibility of forgiving tax debts. The reform bill pursues various objectives: to incorporate a worldwide income principle (to tax all income whether originated in Honduras or abroad, resulting from work, capital or both); to eliminate banking secrecy for tax and customs purposes; to repeal the benefits contained in 10 tax exemption regimes, including those contained in the Free Zones Act; and to create the Development Incentives Regime (RINDE) and the Free Zones Regime for new investments. The bill considers the following instruments for these purposes: (i) the Tax Justice Law; (ii) the Constitutional Reform of Tax Justice; (iii) Ratification of the Convention on Mutual Administrative Assistance in Tax Matters; and (iv) the Final Beneficiary Law.

(b) Monetary and exchange-rate policy

In 2022, the monetary policy interest rate remained unchanged at 3.0%, in line with the measures implemented in 2020 and 2021 to provide short-term funds and boost the credit channel. At the same time,

the Central Bank of Honduras used open market operations to withdraw excess liquidity gradually from the financial system; it also deployed fiscal measures to subsidize fuel and electricity prices, and to promote production and a price freeze to alleviate inflationary pressures.

The annual interest rate on loans was 14.3% (3.8% in real terms) in the fourth quarter of 2022, compared to 15.3% (9.9% in real terms) in the year-earlier period. The deposit rate was 2.6% (-6.8% in real terms), compared to 2.7% (-2.1% in real terms) in 2021. Lending to the private sector continued to expand in 2022 at an annual rate of 19.9%, compared to the previous year's 12.9%. Credit expanded most in the following sectors: commerce (23.6%), consumer (21.7%), services (21.2%) and real estate (20.4%).

The average nominal exchange rate in the fourth quarter of 2022 was 24.77 lempiras per dollar, which represented a nominal depreciation of 1.89% since the last quarter of 2021. In real terms, an appreciation of 0.92% was recorded. The central bank continued to update exchange-rate policy, which included the following measures: alteration of the weights applied to calculate the centre of the exchange-rate band; adjustment of the calculation of the reference exchange rate; amendment of the foreign-exchange commission scheme; and a change in the daily amount of foreign currency sales by foreign-exchange agents. At year-end, net international reserves stood at US\$ 8.421 billion, equivalent to six months of imports, US\$ 256.3 million less than in December 2021. The reduction is explained by the payment of debt service, foreign currency sales and import payments, partially mitigated by the receipt of external disbursements and grants.

In the first half of 2023, the monetary policy interest rate was kept unchanged at 3%. The monthly average nominal exchange rate appreciated by 0.2% in May relative to December 2022, dropping to 24.68 lempiras per dollar. The central bank returned to auctions as a mechanism for allocating foreign exchange in the foreign-exchange market. In the first quarter of 2023, the interest rate on loans was 14.19% (4.51% in real terms) and the deposit rate was 2.85% (-5.87% in real terms). During the first three months of the year, credit expanded at a year-on-year rate of 20.2%, compared to 16.2% in the same period in 2022. In May 2023, net international reserves amounted to US\$ 8.019 billion, 4.8% lower than in December 2022.

(c) Other policies

In March, the Government of Honduras established diplomatic relations with China. At the closing date of this document, the two countries had signed 22 agreements aimed at strengthening commercial, political and cultural relations, and encouraging cooperation and support in the areas of scientific, technological and communications development.

3. The main variables

(a) The external sector

Goods exports totalled US\$ 12.02 billion in 2022, an annual increase of 20%, driven largely by a 21.2% increase in maquila exports in response to greater demand for textile products by the United States. The value of coffee exports rose by 12.9% on the back of higher prices, although the volume traded fell by 25.8% relative to the 2021 level. Exports of services totalled US\$ 1.094 billion, 28.2% more than the cumulative amount in 2021. The increase in revenues from transport (35.9%) and travel (78.4%) was partially offset by a 9.9% reduction in exports of other services.

Goods imports totalled US\$ 15.238 billion in 2022, representing a 14.9% increase over 2021. Oil and fuel purchases grew by 48.1%, thanks to stronger demand and higher international prices for these

inputs. Imports of industrial inputs increased by 13.3%, while imports of food and beverages and consumer goods grew by 14.7% and 6.3%, respectively. Imports of services grew by 24.5% to reach US\$ 3.216 billion, with travel and transport imports increasing by 49.4% and 31.4%, respectively.

Foreign direct investment (FDI) flows amounted to US\$ 822.6 million in 2022, 11.4% more than in 2021. The economic activities absorbing the most FDI were finance and insurance and maquila, owing to the reinvestment of profits.

In 2022, family remittances totalled US\$ 8.465 billion, US\$ 1.28 billion more than in the previous year, representing 26.7% of GDP (up 1.5 percentage points relative to 2021). This growth is mainly due to the economic buoyancy and lower unemployment rates prevailing in the United States.

In March 2023, goods exports totalled US\$ 2.825 billion, 6.6% less than in the year-earlier period. In a context of weaker international demand, maquila industry exports decreased by 10%; coffee shipments declined by 17.1%, owing mainly to an 18% reduction in price.

Imports totalled US\$ 3.551 billion in the first quarter of 2023, 0.7% less than in the same period of 2021. The main contraction occurred in imports of goods for processing (maquila) (24.1%), specifically textile and raw materials for the manufacture of harnesses and electrical components for use in the automotive industry.

(b) Economic activity

Despite an unfavourable international context, characterized by high inflation, an international economic slowdown and tightening financial conditions, most economic activities regained their pre-pandemic levels. The monthly index of economic activity (IMAE in its original series) increased at an average year-on-year rate of 4.4% in 2022. Measures to strengthen the production sector included fuel price subsidies, improved access to financing, and transfers to producer households (technological bonus). The strongest growth occurred in the first quarter of the year, when GDP grew at an average year-on-year rate of 5.7%, before easing to an average of 2.0% in the fourth quarter.

In 2022, nearly all economic activities grew, including financial intermediation services (by 12.2%), commerce (6.9%) and manufacturing (6.0%). The only exception was agriculture, forestry, hunting and fishing, which shrank by 0.7%.

With a backdrop of better economic conditions and higher levels of disposable income, resulting from the partial recovery of employment and robust remittance flows, private consumption increased by 5.0% in 2022. Government consumption grew by 0.8%, compared to an increase of 8.5% in 2021, owing to the administrative reorganization process in the exercise of public resources. Gross fixed capital formation also reflected modest growth of 0.7% in 2022.

Between January and April 2023, IMAE rose at an average year-on-year rate of 2%, compared to the 6.8% recorded in the year-earlier period. The hotels and restaurants sector grew by 17.3% on average, followed by financial intermediation (12.3%) and transport (9.1%). By contrast, the manufacturing sector contracted by 8.4% on average, owing to a reduction in the demand for textile products, mainly from the United States, which affected apparel manufacturing activity.

(c) Prices, wages and employment

The recovery of aggregate demand, combined with an increase in the international prices of raw materials and fuels and supply-chain problems, in a context of geopolitical tensions, put upward pressure on the general price level. Average annual inflation in 2022 was 9.1%; year-on-year inflation in December came in at 9.8%, with the largest increases occurring in food and non-alcoholic beverages (15.8%), hotels and restaurants (11.5%) and alcoholic beverages and tobacco (7.9%). Transport costs increased by 9.8% and the prices of accommodation, water, electricity, gas and other fuels rose by an average of 4.4%, owing partly to subsidies targeting some of these goods and services.

In 2022, the national open unemployment rate was 8.9%, equivalent to 348,513 people. Unemployment was at its highest (45.7%) among the population under 25 years of age. The rate among men was 6.9% (7.0% in 2021), while among women it was 11.4% (10.7% in 2021). Of the total employed population in 2022 (3,664,000 people), nearly two million are wage earners working in the private sector.

In April 2022 the monthly minimum wage was set between 7,408.09 and 14,347.45 lempiras. In firms with between 1 and 10 employees, the increase was 5.3%; in firms with 11 to 50 employees, 5.5%; in those with 51 to 150 employees, 6.5%; and in those with 151 employees or more, the increase was 7.5%. The average minimum wage, effective for 2022 and 2023, was 11,278.75 lempiras, 6.4% more than in 2021.

Year-on-year inflation in May 2023 stood at 6.6%. Although inflation is easing, with lower international prices of fuels and raw materials, about 50% of this inflationary process is due to external factors, according to the Central Bank of Honduras.

In March 2023, the national open unemployment rate was 7.4%, equivalent to 281,984 people. The male unemployment rate was 5.3%, compared to 10.7% among women.

In February 2023, the new monthly minimum wage scale was published, and was set between 8,134.08 and 15,753.50 lempiras per month. The wage increase was 9.8% for all firms irrespective of the number of workers employed.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
	Annual growth rates b/								
Gross domestic product	3.1	3.8	3.9	4.8	3.8	2.7	-9.0	12.5	4.0
Per capita gross domestic product	1.2	2.0	2.1	3.0	2.1	0.9	-10.4	10.8	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.8	2.6	4.8	10.3	2.6	-1.0	-6.3	0.4	-0.7
Mining and quarrying	-8.3	-1.0	5.4	14.1	12.7	1.9	-23.5	17.3	3.9
Manufacturing	3.0	3.9	3.0	3.9	3.9	2.0	-14.0	19.4	6.0
Electricity, gas and water	1.6	8.8	6.5	3.8	7.2	2.4	-3.9	26.6	0.8
Construction	-9.6	2.3	6.2	8.5	1.7	0.3	-25.4	17.2	5.9
Wholesale and retail commerce, restaurants and hotels	2.1	3.1	3.2	3.6	4.4	2.9	-17.8	19.6	6.9
Transport, storage and communications	4.4	4.2	3.6	3.3	3.6	3.1	-4.5	5.9	3.0
Financial institutions, insurance, real estate and business services	6.8	7.9	5.0	4.9	4.6	7.0	-2.1	14.2	9.8
Community, social and personal services	1.5	1.6	2.6	2.7	2.6	2.5	-0.9	5.1	1.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.7	3.6	4.1	4.6	4.9	4.2	-5.0	14.1	4.4
Government consumption	-2.6	2.1	4.4	1.4	1.0	1.7	2.9	8.5	0.8
Private consumption	2.6	3.9	4.0	5.2	5.5	4.7	-6.2	15.1	5.0
Gross capital formation	9.4	22.4	-5.2	12.6	7.9	-16.4	-25.1	49.1	0.7
Exports (goods and services)	3.4	2.9	0.9	4.9	1.4	2.4	-20.8	21.5	5.8
Imports (goods and services)	3.4	8.5	-1.6	7.2	4.5	-2.4	-18.5	33.0	4.8
Investment and saving c/	Percentages of GDP								
Gross capital formation	22.2	25.1	23.4	24.8	26.6	22.7	18.8	24.0	23.4
National saving	15.2	20.4	20.2	23.6	20.0	20.1	21.6	19.4	20.2
External saving	6.9	4.7	3.1	1.2	6.6	2.6	-2.8	4.6	3.2
Balance of payments	Millions of dollars								
Current account balance	-1 372	-980	-683	-288	-1 582	-653	666	-1 318	-1 015
Goods balance	-2 968	-2 949	-2 599	-2 753	-3 818	-3 361	-2 569	-4 857	-5 411
Exports, f.o.b.	8 117	8 226	7 960	8 656	8 644	8 788	7 684	10 216	12 172
Imports, f.o.b.	11 085	11 175	10 559	11 409	12 462	12 149	10 253	15 073	17 583
Services trade balance	-437	-445	-578	-775	-1 062	-1 213	-1 102	-1 729	-2 122
Income balance	-1 606	-1 426	-1 508	-1 406	-1 882	-1 973	-1 646	-2 352	-2 421
Net current transfers	3 638	3 841	4 003	4 646	5 180	5 894	5 983	7 621	8 939
Capital and financial balance d/	1 816	1 270	733	1 173	1 627	1 641	1 245	1 776	888
Net foreign direct investment	1 315	952	900	1 035	895	496	373	513	640
Other capital movements	501	319	-168	138	732	1 146	872	1 264	248
Overall balance	444	290	50	885	46	988	1 911	459	-127
Variation in reserve assets e/	-459	-303	-66	-884	-50	-993	-2 381	-587	122
Other financing	15	13	16	-1	4	5	470	128	5
Other external-sector indicators									
Real effective exchange rate (index: 2015=100) c/	96.9	100.0	101.5	102.2	100.7	100.4	96.9	94.6	95.0
Terms of trade for goods (index: 2018=100) f/	100.5	106.0	106.3	106.6	100.0	98.1	102.0	100.1	91.1
Net resource transfer (millions of dollars)	225	-144	-759	-234	-250	-327	69	-448	-1 528
Total gross external debt (millions of dollars)	7 184	7 456	7 499	8 572	9 112	9 604	10 981	11 355	11 804
Employment g/	Average annual rates								
Labour force participation rate	56.1	58.1	57.5	59.0	60.4	57.3	59.5	60.7	58.2
Unemployment rate	5.3	7.3302633	7.4	6.7	5.7	5.7	10.9	8.6	8.2
Visible underemployment rate	12.5	14.1	11.5	11.8	14.2	10.6	27.3	31.3	...

Table 1 (concluded)

	2014	2015	2016	2017	2018	2019	2020	2021	2022 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	5.8	2.4	3.3	4.7	4.2	4.1	4.0	5.3	9.8
Variation in nominal exchange rate (annual average)	2.3	6.6	4.5	2.9	1.8	2.8	0.3	-2.3	2.2
Nominal deposit rate h/	6.4	5.8	5.1	4.7	4.7	4.9	4.7	3.3	2.5
Nominal lending rate i/	20.6	20.7	19.3	19.3	17.8	17.3	17.0	16.0	14.6
Central government	Percentages of GDP								
Total revenue	18.5	19.2	20.0	20.3	20.2	19.2	16.6	19.1	19.6
Tax revenue	16.5	17.3	18.3	18.3	18.4	17.5	14.8	17.3	17.7
Total expenditure	22.9	22.1	22.8	23.0	22.3	21.6	23.6	24.1	20.9
Current expenditure	17.7	17.6	17.8	17.7	17.0	17.1	19.3	18.8	17.8
Interest	2.5	2.6	2.6	2.7	3.0	3.0	3.4	3.1	3.0
Capital expenditure	5.1	4.6	5.0	5.3	5.3	4.6	4.3	5.3	3.1
Primary balance	-1.9	-0.4	-0.1	0.0	0.9	0.6	-3.6	-1.8	1.7
Overall balance	-4.3	-3.0	-2.7	-2.7	-2.1	-2.5	-7.0	-5.0	-1.3
Central government public debt	44.4	44.7	46.3	47.7	48.5	48.7	58.9	59.3	53.3
Domestic	16.3	15.6	18.6	18.1	19.0	19.4	25.0	27.9	25.8
External	28.1	29.1	27.7	29.6	29.5	29.3	33.9	31.4	27.5
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	38.6	37.1	43.9	42.1	45.4	45.4	51.5	54.1	55.2
To the public sector	2.5	1.2	4.3	2.4	1.8	1.9	5.3	7.8	6.9
To the private sector	55.1	54.6	57.8	57.7	62.9	64.0	69.9	66.9	69.5
Others	-18.9	-18.8	-18.2	-18.1	-19.3	-20.5	-23.7	-20.5	-21.2
Monetary base	11.0	10.7	13.0	12.5	12.7	13.7	22.8	19.2	14.7
Money (M1)	11.0	11.4	11.8	12.3	12.3	13.3	18.1	16.8	18.0
M2	39.4	39.3	43.1	44.5	46.0	49.0	61.9	58.8	59.3
Foreign-currency deposits	15.2	13.7	15.0	15.0	14.8	14.1	16.6	14.8	14.0

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

	2021				2022				2023	
	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/	2.1	27.0	12.7	11.2	5.5	4.3	4.2	2.2
Gross international reserves (millions of dollars)	8 198	8 550	8 836	8 768	8 508	8 434	8 295	8 218	8 242	8 048 c/
Real effective exchange rate (index: 2005=100) d/	91.7	81.8	79.4	76.3	77.1	79.4	78.2	71.3	77.6	...
Consumer prices (12-month percentage variation)	3.9	4.7	4.6	5.3	7.0	10.2	10.0	9.8	9.1	5.6
Average nominal exchange rate (lempiras per dollar)	24.2	24.0	23.9	24.2	24.6	24.5	24.6	24.7	24.6	24.6
Nominal interest rates (average annualized percentages)										
Deposit rate e/	3.9	3.5	3.1	2.7	2.6	2.5	2.5	2.6	2.8 f/	...
Lending rate g/	16.5	16.2	15.9	15.3	15.0	14.8	14.4	14.3	14.2	14.3 e/
Interbank rate	1.0	1.0	0.8	1.0	1.2	2.0	3.0	3.5	3.5	... c/
Monetary policy rates	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Sovereign bond spread, Embi Global (basis points to end of period) h/	321	332	337	313	466	899	697	529	585	495
International bond issues (millions of dollars)	-	300	-	-	-	-	-	-	-	-
Domestic credit (variation from same quarter of preceding year)	8.4	9.6	16.0	22.4	25.5	21.7	21.2	17.3	15.3	...

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/ Figures as of April.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ Weighted average rate of deposit rates.

f/ Figures as of February.

g/ Weighted average of lending rates.

h/ Measured by J.P.Morgan.